



THE

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# Credit Union

*Bridge*

OFFICIAL PUBLICATION OF THE CREDIT-UNION NATIONAL ASSOCIATION, INC.

## ON THE COVER

CUNA Mutual Insurance Society dedicated its new building in Madison, Wisconsin, on May 12. Shown, between president Nelson MacDonald and general manager C. F. Eikel, Jr., are two speakers who came for the occasion—Canadian minister of immigration Ellen Fairclough and treasurer of the United States Ivy Baker Priest.



# The Credit Union

*Bridge*

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## COMING SOON

An effective supervisory committee

Reorganizing in Noble County

Volunteer committee members work better when they know how their job fits into the total picture.



# KEEPING VOLUNTEERS HAPPY

*Volunteer officers, directors and committee members are the backbone of a credit union. If they fail to function, if they lose interest, if they don't know what they're supposed to be doing—the credit union will drift and lose its way. Here's a list of suggestions for keeping volunteers effective.*

**T**HERE are some 300,000 volunteers serving on boards and committees of credit unions. About 100,000 of them are new this year. How many of them will do a good job? How many will enjoy it? How many of them will take a real interest in it? Will their morale be good? These are important questions; the future of the credit union movement depends on the answers.

Fortunately, past experience indicates that in the main the volunteers will do their jobs pretty well. On the whole, they will enjoy it. Credit union directors and committee members are only 300,000 among millions of officers of voluntary organizations of many kinds; there is some kind of instinct in most people for public service.

But there will be complaints—"Our

board doesn't really seem interested," "We can't get people to serve on our supervisory committee," "Really, one man is carrying the whole load."

When volunteers fail to respond to the challenge, there may be several dozen reasons why. In a credit union, as in any other voluntary organizations, the reason may be in the individual, or in the group, or in the way the job has been set up, or somewhere else. A lot of study has been given in the last few years to voluntary organizations and what makes them tick. Volunteers have been put under the microscope, and their motives have been classified and cross-indexed. It is widely recognized that a volunteer is usually somebody who has said yes when he has been asked to do something. In other words, he hasn't been looking for the responsibility; he has

had it handed to him. When he is handed the ball, will he lay it down or will he run with it? To some extent, the answer can be predicted.

- The volunteer has personal tastes and standards that will have some effect on his performance. The organization has to match these. If it doesn't he will lose interest.

- The job to be done has to make sense to him. Whatever his personal motivation may be, sooner or later the organization is going to make its own goals clear to him. He will accept them as good goals, or he will decide they don't make sense and quit.

- The group may be smooth-running, or it may not. If it is badly run, if its affairs are in a mess, he may drop out no matter how closely his goals and the goals of the organization coincide.

- There are practical considerations. Most people who serve as volunteers work in several organizations, and have other obligations as well. The work has to be made reasonably easy and convenient for them.

These are facts the board of directors of any credit union should consider. It's the job of a board of directors to elect its own officers. When a member of the credit committee resigns, the board may appoint a replacement. Under the federal law, the board appoints a supervisory committee. It may appoint an education committee. It may appoint a nominating committee for the annual membership meeting. It may appoint subcommittees and special committees, an investment committee, a delinquency committee, a membership committee. In all this activity, the board should ask: Are we picking the right kind of people? Are we inviting them to take these jobs in the right way? Are we making these jobs easy for them? Are we rewarding them properly?

But these questions should be considered slowly and in detail, somewhat along these lines:

**Recognition.** Some people are hungry for recognition, and some don't feel very strongly about it; but everybody likes to be told that his efforts are appreciated. When a volunteer has served conscientiously on a committee, his service should be acknowledged. There are various ways of doing this. Sometimes a story in the paper, sometimes a notice on a bulletin board, sometimes a letter to say thank you, sometimes an award at

the membership meeting. This is really something he has earned; it also encourages him to keep up the good work. Beyond that, it impresses other prospective volunteers and encourages them to feel that volunteering is worth while. The president of the credit union should have a well-planned system of recognizing the services of the various board and committee members, just as he recognizes his own children's birthdays.

**Personal growth and advancement.** The feeling that he has gained in experience, in ability, in understanding or in prestige through his service on a committee will be a substantial reward for many a volunteer. He may have learned things that will help him in his everyday job, perhaps leading to a promotion. He may have more prestige in the group than he had before. He may feel more competent than before to take on new responsibilities—to run a meeting, to handle organizational finances, or to counsel members. He may enjoy being sent as a delegate to chapter or league meetings. The credit union should offer a man as much responsibility and experience as he is ready to accept and enjoy. It should avoid asking its board members simply to act as rubber stamps.

**Sense of purpose.** A credit union that is doing its job will be helping its members solve some serious financial problems. As the board and committee members discover how it is possible to help members, they will get a strong sense of purpose that will knit them together as a group. The board should avoid spending much of its time on the negative side of its program — the collection problems created by 2 percent of the members. The purpose of the credit union is to help the 98 percent who are honest responsible people, and this is the work that produces a satisfying sense of purpose.

**Personal invitation.** Few volunteers show up spontaneously and ask if they can help. Most volunteers have to be invited. Whether a man who is asked to serve on a committee says yes or no may depend on a lot of things, but it will depend partly on who asks him and how it is done. If he is asked by a friend, or by somebody whom he respects, he is more likely to say yes and to mean it. Ideally, a nominating committee should do much more than just ask a man whether he will run if nominated. It

should discuss the job with him, explain what is involved and lead him toward some sort of commitment toward it. Perhaps the nominating committee should consist of former officers who are respected and can talk realistically about the responsibilities of office.

**Personal background.** Some members have had bitter experiences with unscrupulous lenders or with their own mistakes in handling money. Once they have been helped to get straightened out, many would be willing to help others. These members should be considered carefully for service as credit union committee members. Just as many polio sufferers have volunteered for work with the Polio Foundation, so many who have suffered as borrowers should be invited to work for their credit unions.

**The job** has to commend itself to the volunteer as something worth doing. If he is asked to serve on the supervisory committee, which many consider a grinding and thankless job, he should be shown the significance of the work this committee does. If a special committee is being set up, care should be taken to make sure that the new committee has the power it needs to do the job assigned to it, so that the members may feel that their assignment makes sense. Each job should be explained in its relationship to the main goals of the credit union. Joint meetings of the board and committees help clarify this. Such meetings should be held regularly, and all in attendance should have a chance to talk.

The job should be **fitted to the volunteer**. He should not be asked to do something for which he has no aptitude. If he gets the impression when he is asked to take the job that this is a job nobody else wants, or that he is second choice, or that there is something fishy about the whole thing, his yes will be very reluctant and his follow-up will be even more so.

The job should seem **possible**. Even if the job is one for which the volunteer has little experience, it can be set up in such a way that he won't be afraid to tackle it. If he knows he will get any help he needs, if he knows others like him have done it successfully, he will approach it optimistically. Former committee members can help him get started on it, or volunteers from other credit unions in the community. If the other members of





Most volunteers get unexpected satisfaction from working with people.

the committee are old-timers who are already doing a good job, his start will be easy. If a whole committee has been replaced, however, the board should do everything possible to give the new committee a feeling of confidence and to make the job pleasant.

**The relationship** of the job to the goals of the credit union should be clear. Many a volunteer enjoys his volunteer work primarily because his ordinary job is monotonous and unpleasant. He likes his volunteer work because it seems to give him more of a role in the community, more of a purpose. He should be given every opportunity to see how his work in the credit union *does* serve the community. In other words, whatever the volunteer is doing, even if it's only stuffing envelopes, he should be shown how this is helping the members of the credit union, and he should be thanked on that basis.

**Appropriate power.** The members of a committee are asked to carry out a certain assignment, and they must have the power to do it. This makes sense for the organiza-

tion; it also means something to the volunteers as people. Occasionally a board of directors will attempt to restrict the power of a credit committee; this is bad for the credit committee, and it also leads to rapid turnover as the frustrated volunteers on the committee come to the conclusion that they have been asked to do a job and then denied the power to do it. Many education committees have been frustrated in the same way—asked to carry on an education program but given no power.

Does the credit union membership respect its **present leadership**? Do the present board and committee members respect the president and treasurer? If there is a full-time manager, is he respected? Some voluntary groups, including credit unions, get into a rut with an old and faithful group of officers who are not doing too well but whose feelings nobody wants to hurt by electing a new group. This is not uncommon experience in many kinds of groups, but it tends to discourage new volunteers from serving, both because the atmosphere is

tired and stuffy and because the old-timers make the new people feel like interlopers.

Do **ex-officers** speak well of their experiences? In a healthy, vigorous group, there will be a certain amount of turnover, but the volunteers who have dropped out of committee work will remember it with pleasure and be willing to lend a hand with occasional problems that come up. The existence of such a group will encourage others to serve.

Are the present officers **agreed on the goals** of the credit union? Or are they split on some fundamental issue, such as what kind of loans the credit union should make? Sometimes a credit union is seriously divided between liberals and conservatives. Sometimes personal frictions divide the group, so that being asked to sit on the board or on a committee

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# STONE RENAMED

## *Will go ahead with plans for new casualty company, CUNA Mutual announces*

**T**HE big issue is whether insurance is going to get in the way of the democratic processes of the credit union movement, said Julius Stone before the CUNA annual meeting.

Stone was reelected president of the Credit Union National Association by a vote of 116 to 111, and the narrow margin apparently reflected accurately the difficulty the national board was having in evaluating the issues.

Meanwhile, the CUNA Mutual board announced that it will proceed with plans to establish a stock company in the field of casualty insurance. CUNA Mutual biennial elections produced no upsets; no inde-

pendent candidates were elected.

The CUNA national board meeting was confused and disorderly. The first morning of the meeting was largely consumed in debate over the seating of national directors from Ohio and New York, because the two leagues had announced they were considering refusing to pay their annual dues unless insurance issues were settled to their liking. The credentials committee recommended against seating them. The dust settled when all parties agreed that no legal basis exists either for refusing to seat delegates at a CUNA annual meeting or for a league refusing to pay dues.

A later incident produced further turmoil. Charges that a commercial insurance company had been encouraged to compete with CUNA Mutual were brought before the meeting, and an effort was made to turn the meeting into an investigation. However, a special committee was appointed to investigate the charges later, and this may lead to fireworks during the summer. Some positive decisions were made by the meeting,

of which two were outstanding:

- A central stabilization program was authorized, to back up league stabilization programs. CUNA management was directed to make staff assistance and legal counsel available for setting up this program, which will become a kind of voluntary trust agreement controlled by the participating leagues.

- A nine cent dues rate was voted, effective in 1961, replacing the eight cent rate of recent years. The new rate will add approximately \$100,000 to CUNA income. Total CUNA dues income for 1961 is now estimated at \$970,000. The CUNA executive committee will reexamine the budget at its August meeting to determine what new services can be added to the program. High on the priority list is the provision of a specialist in league management, to train new managing directors and league personnel.

James W. Grant of the District of Columbia was reelected secretary by a one-vote margin, 114 to 113. Iret Ferris of Michigan failed of reelection and was replaced as treasurer by John Helton of West Virginia by a 118 to 109 margin. Defeated candidates were James Girvan of Pennsylvania running for president and Halley Thomas of Utah, running for secretary. Lauren L. Plummer of Kansas was reelected by the new executive committee as first vice presi-

Several awards were given for exceptional performance.

Left: Jack Kent of California accepts an award as outstanding volunteer credit union organizer for 1959.

Right: Two officers of the J & L Service Department Credit Union, Aliquippa, Penna., receive an award for an outstanding Credit Union Day celebration. They are Paul Piccirilli and George Glomb. Their credit union serves steel workers employed by Jones & Laughlin.

Julius Stone presents the awards.



# CUNA PRESIDENT

dent. New members of the executive committee are Rod Glen of British Columbia and Lloyd Mansfield of Washington.

Midway through the week, CUNA Mutual Insurance Society dedicated its new building on the west side of Madison. The handsome new structure, built at a cost of \$1,500,000, will be ready for occupancy sometime in August, according to present estimates. Impressive ceremonies, both on the site of the building and in one of the local theaters, celebrated the occasion. Vandals broke windows and set fires in the building during the night of May 15, but the damage was not great.

There were 227 national directors attending the CUNA meeting, including representatives of 62 leagues. Among the more distant leagues represented were New South Wales, Australia; the Fiji Islands, Peru and British Honduras.

Leonard R. Nixon of Connecticut was reelected president of CUNA Supply Cooperative, and Rev. J. D. Nelson MacDonald was reelected president of CUNA Mutual Insurance Society.

Other new CUNA Supply officers: John J. Hartmann of Saskatchewan, vice president; Charles Stark of California, treasurer; Emil Francione of Wisconsin, Vern W. Talcott of Oregon, Ray Zoucks of Georgia and Jerauld T. Oberholtzer of the District of Columbia, directors.

## Correction

It was stated in the May Bridge that the New York State Credit Union League had threatened to withdraw from the Credit Union National Association if any steps were taken to set up a new insurance company owned by CUNA.

This was an error. Sidney Wexler, president of the New York League, has assured The Bridge that no such threat was ever made.



James W. Grant, left, manager of the Justice Department credit union in Washington, was reelected secretary of CUNA.

John Helton, right, an accountant with the Veterans Administration in West Virginia, is the new CUNA treasurer.

## Report to Executives

Excerpts from president Julius Stone's report to the CUNA executive committee on May 12 follow:

"It is becoming more obvious every day that the credit union movement faces a future of great changes and stimulating challenges.

"Last month it gave me a great deal of personal pleasure to testify before Senator Douglas's subcommittee of the Senate Banking and Currency Committee on the so-called Douglas Bill—a bill that would require all who extend credit to consumers, whether in the form of loans or on merchandise, to state their charges clearly both in dollars and cents and as a true annual interest rate. With me, as witnesses on this bill, were two experienced credit union managers, R. C. Morgan of El Paso, who is also president of the Texas Credit Union League, and Donald J. MacKinnon of Dearborn, Michigan, who besides working as a credit union manager and as a league field man has worked for several kinds of commercial enterprises extending installment credit to consumers. Between us, we explained to

the committee something about credit union philosophy and practices, and offered a number of concrete examples of ordinary wage earners and salaried employees who had been confused and injured by misleading statements of interest rates. Dave Weinberg and Jonathan Lindley were present too, of course, and we now have the impression, contrary to our earlier expectations, that this bill is going to pass and become law. Not this year, perhaps, but in a year or two. The case in favor of it is simply overwhelming.

"Last year, consumer credit in the United States expanded another \$5½ billion, and the social problems that are created by this rapid expansion of credit are being aggravated, as we all know, by unscrupulous competition among the marginal operators and confusing rates and other practices in all sectors. The consumer simply does not know what he is paying. When the prime rate on commercial bank loans is 5 per cent, the consumer is innocent enough to believe that he is getting a 5 per cent rate on an installment loan at his bank. R. C. Morgan told the committee that in

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# SHOULD LENDERS TELL BORROWERS

**A**RGUMENTS for and against the Douglas "full disclosure" Bill have been heard, and the hearings are over. The future of the bill is now up to Congress and the White House. Whether or not it becomes law this year, there seems little doubt of its eventual enactment. The case against sin, as it has been presented to the Senate Banking and Currency Committee, is just too strong.

The bill would require all who are in the business of extending installment credit to the consumer to state clearly their charges both in dollars and cents and as a true annual interest rate. This means credit unions would tell their members that 1 percent per month is the same as 12 percent per year. It means banks would tell their borrowers that 6 percent discount is 12 percent per annum. Retailers and loan companies would have to tell the public that their rates run from 18 to 42 percent.

Naturally, the bill has been opposed by those who fear that the public will be shocked when it learns the rates it is paying. On the other hand, the evidence presented to the Committee of abuses and deception has been so disturbing that it is clear the reputable financial community cannot resist this bill very long. Arguments in favor of the bill have been offered by public service agencies, government agencies, credit unions and citizens' groups.

In the following pages, we present a long extract from the record of the hearings. The full record is available from the Government Printing Office. Credit union officers are urged to give this material thoughtful study, because it throws a sharp light on the need for credit unions, the problems of borrowers and the morality and practices of the marketplace.



# THE TRUTH?

The chairman of the Federal Reserve Board, William McChesney Martin, frankly told the committee that he often cannot understand an installment sales contract. The following dialogue between Martin and Senator Douglas got quite a play in the newspapers.

**Senator Douglas.** Mr. Martin, what do you think is the general thesis on how the rate of interest should be expressed—in annual terms or as a percentage of the outstanding unpaid balance.

**Mr. Martin.** I will have to be honest with you. It has been confusing to me, on a number of occasions on transactions that I have been involved in, to try to figure out just exactly what it is.

**Senator Douglas.** You mean the present practices are confusing?

**Mr. Martin.** Not only the present practices are confusing, but how you figure it is confusing.

**Senator Douglas.** You mean present practices?

**Mr. Martin.** That is right.

**Senator Douglas.** In other words, the present practices are confusing to you?

**Mr. Martin.** I have had very few transactions of this sort. But take an automobile that has fire insurance, burglary insurance, and theft insurance, and other things on it. You trade in an old car, and you try to figure the unpaid balance. The purchaser may be willing to pay for the car in toto, you see, but he wants to know what it would cost him if he financed the balance, including the cost of insurance and other charges involved in the use of credit.

**Senator Douglas.** I think this is very significant testi-

mony because you are probably the most expert man in the field of finance in the United States.

In civilian life, you were president of the New York Stock Exchange. You rose to be Assistant Secretary of the Treasury. You have now, for many years, been Chairman of the Board of Governors of the Federal Reserve System. If the present practices are confusing to you, the most expert man in the country, what do you imagine they are to the average workman?

**Mr. Martin.** Well, I appreciate this buildup.

**Senator Douglas.** This is a very real fact. If this is confusing to you, what do you suppose it is to the man working for wages?

**Mr. Martin.** I am talking about the concept of simple interest, the charge of simple interest on a given amount, you see.

**Senator Douglas.** On the unpaid balance?

**Mr. Martin.** On the unpaid balance.

**Senator Douglas.** You favor that principle?

**Mr. Martin.** I think it is a good principle, but I think it is easy to—

**Senator Douglas.** I understand. We want to find out if it is a good principle. If it is conducted practically, do you think it is a good principle?

**Mr. Martin.** I think it is a good principle, but it is because I have not found anything better to compute this type—

**Senator Douglas.** You have found many things work, have you not?

**Mr. Martin.** I have not spent much time in this.

**Senator Douglas.** Let me ask you this question: Suppose a man buys, on the installment plan, an automobile at \$2,500, with nothing down. Oh, let us say \$500 down, and the original unpaid balance is \$2,000, therefore. He is told that the rate of interest on this is 6 percent,

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Dr. M. E. Bratcher says running a church credit union is a full-time job.

The Berkeley Baptist Divinity School has a pleasant campus and a fast-growing credit union.



# SERVING BAPTIST MINISTERS

*This California Baptist group has had unusually rapid growth, and the treasurer makes some interesting observations about credit unions in church groups*

**“T**HERE are two things that are tremendously important in a minister's life. One is that he marries the right wife. The other is that he knows how to handle money.”

This is the advice Dr. M. E. Bratcher gives whenever he meets a Baptist seminarian who is contemplating marriage. As treasurer of a fast-growing Baptist credit union, Bratcher can back up his advice with concrete help.

“We think that through our credit union we can help hundreds of ministers, church officers and board members,” he says, “to recover their financial equilibrium and learn sound methods of money management. We can do it through counseling and through the ordinary routine of budgeting and loan repayments.”

American Baptist NorCal Credit Union, in Berkeley, California, is growing unusually fast. Its field of membership includes pastors in the 175 churches of the Baptist Convention of northern California and Nevada; elected church officers, board members, employees and members of their families. It was organized at the re-



quest of fifty pastors. It does not serve the ordinary members of congregations, but it looks like the kind of training ground which will produce before long a number of credit unions of the congregational type.

The vigorous Dr. Bratcher, who is a retired theologian and has served as the credit union's treasurer since it was organized in 1958, says, "I think our membership should continue to grow indefinitely. Each year there is an approximate 25 percent turnover on our local boards. This means we could have an annual increase of 20 or 25 percent, while the older members retain their eligibility."

#### Deacon in distress

What kind of problems do the members of this Baptist group have? The case of Deacon Jones shows that they are pretty typical of credit union experience everywhere.

Deacon Jones (the name is the only fictional part of the story) came to see treasurer Bratcher at the suggestion of his local parson. He had 23 creditors, to whom he owed about \$3,000. Five of his creditors were

loan sharks, to whom he was paying \$174 a month. This was more than he could manage to pay, and he was seriously considering filing for bankruptcy. He had three children, and his wife was a Sunday School superintendent. He was afraid he was about to lose his home, his furniture, his car and possibly his job.

"When I heard Jones's story," says Bratcher, "I told him I couldn't see any way to help him. But that night I couldn't sleep a wink. I kept going over Jones's problem in my mind, detail by detail. The next morning I phoned him and asked him to come see me again."

During the subsequent interview, Bratcher suggested to Jones that NorCal could make him five loans of \$500 each, provided that he could find co-makers for four of them. On the fifth he proposed taking a chattel on Jones's household goods. Jones went out to look for co-makers, found them easily enough, and the loans were set up.

With the \$2500 of credit union loans, Jones's total debts were paid off, says Bratcher. Many of Jones's

creditors were willing to wipe off accumulated interest charges. Jones's milk company insisted on canceling his entire debt with them, "because he has been such a good customer and we are terribly sorry that he has gotten into this unfortunate financial situation."

Before the loans were approved, Jones agreed that he would not borrow again without getting the credit union's consent. He has faithfully stuck to his agreement. For the past twelve months he has sent all his paychecks to the credit union; the credit union in turn has remitted to him his living allowance of \$106 twice a month. When Mrs. Jones recently needed \$10 for a medical bill which could not be handled within the family budget, Jones asked for another loan from the credit union and got it.

• **Counseling.** "We try to help our members understand that they cannot be practicing Christians while their financial affairs are in disorder," says Bratcher, who has given much time and thought to his counseling responsibilities. He says counseling ranks high among the important serv-



Dr. Ralph M. Johnson, president of the divinity school, thinks his students will organize credit unions in their churches some day.

Right: Dr. Bratcher was popular with the students in his teaching days. This dormitory is named after him.



ices a church credit union can provide for its members.

"Christian living requires orderly living within one's income and ability to repay. We may not always be able to meet our obligations as planned when unexpected emergencies occur, but we have the obligation and duty to get our financial affairs back on an even keel as quickly and as sensibly as possible. I strongly believe that the credit union is the ideal instrument to help us live through and overcome financial troubles. A person may not be able to pay. But if he's honest, his explanation will do."

Bratcher carries out his credit union work with youthful zeal and enthusiasm. He says credit union work is a part of his Christian ministry. "This part consists of helping others with their economic needs. It is just as real and direct an expression of Christian service as my former work as a minister and professor of theology."

Dr. Ralph M. Johnson, who is president of the Berkeley Baptist Divinity School in Berkeley, thinks NorCal is going to stimulate the organization of

credit unions in other Baptist groups, including congregations. "I hope to see the day when every church congregation has access to a credit union. Our experience shows clearly that credit unions are uniquely qualified to meet the consumer credit needs of our congregations. American Baptist NorCal Credit Union has been so successful that there is good reason to believe that our other eight Convention areas will soon be interested in credit union services. I imagine many of our students will start credit unions in their own churches."

#### Leadership is a must

There are two problems, however, says treasurer Bratcher, in church groups. He expects to see a substantial increase in the number of Protestant church credit unions in the future, but he points out that they have to have adequate leadership and management. "There must be interest," he says. "There must be leadership. It takes plenty of time and hard work to operate a credit union that really serves its membership."

For this reason, Bratcher emphasizes the importance of setting up credit unions with good potential. A credit union should have a large enough membership group so that it is practical to hire a full-time manager

after the first year, he suggests. He believes serious consideration should be given to the advisability of organizing church groups on a state-wide basis. If church credit unions could be organized from the start to serve a state-wide common bond, he says, they could give the best possible service to the church members and their pastors.

Few church groups have grown faster than NorCal. On March 1, 1960, just 23 months after organization, NorCal had 438 members, \$166,426 in shares, 300 borrowers, \$238,092 in loans, and \$245,922 in assets.

Three factors have influenced NorCal's growth: progressive management policies, effective publicity and education, and the support of the Convention.

The Convention's constant good will has been a great asset. It has enabled treasurer Bratcher and his fellow directors and committeemen to talk about the credit union at many church body meetings. It has also provided free space in the Convention's state paper, which goes to all pastors and is read by several thousand other individuals.

But while both the Convention and the Divinity School have given generous moral assistance, the credit union has stood on its own financial feet



since organization. It began paying its treasurer a token salary in November, 1958, doubled his earnings during the following January and again doubled his monthly income in August, 1959. In addition, NorCal employs a part-time bookkeeper. It now plans to add another part-time employee to its present staff, and is considering the advisability of hiring a full-time assistant treasurer whenever earnings can support it.

NorCal rents its own office space and pays for its telephone. The monthly rental for the group's 18 by 16 office on the campus of Berkeley Baptist Divinity School is \$30. It also has its own safe, typewriter, file and adding machine.

• **Communicating with potential members.** Contacting the potential membership is NorCal's biggest problem. The service area of northern California and Nevada is vast. At present NorCal writes letters to pastors and board chairmen, telling them about the credit union's services. "But that in itself does not produce too good direct results," says treasurer Bratcher. "It only prepares the way, I think that once we have solved our communications problem, our growth will proceed at an unprecedented rate."

• **Membership education.** Some 80 percent of NorCal's members conduct their credit union business through the mails. To keep in touch with them, NorCal designs a special piece of literature every three or four months. This item usually covers several brief subjects and frequently takes the form of letters.

NorCal mimeographs its literature and mails it to all members as well as all pastors, chairmen of boards of deacons and church treasurers in the field of membership. The group plans soon to include the church clerks and chairmen of the boards of trustees in these mailings. At present NorCal uses an addressograph for the envelopes to the pastors and school faculty. But envelopes to church boards and officers are currently addressed by hand.

• **Delinquencies.** NorCal has no delinquency problem. "We have never had to list a member as delinquent," reports treasurer Bratcher. "This does not mean that our members have not had difficulties in meeting their payment schedules, or that we have not had to work hard to encourage them

*(Continued on page 31)*

## FROM THE MANAGING DIRECTOR:



## TECHNICALITIES GET IN THE WAY

**I** HAVE repeatedly said that we can never substitute philosophy for accurate bookkeeping. We need the philosophy—must have quantities of it—but no amount of it can ever be substituted for an efficient operation of the credit union. However, sometimes we get so close to the operation of our credit unions that we let details get in the way of the service that our members are entitled to.

Sometimes we need to ask ourselves if our credit unions are making it as easy as possible for our members to save—and to borrow. If a member needs some money certainly we should make the technicalities of his loan application and of his getting that loan as simple as possible. This should mean a minimum of delay in time from his application to his getting the money, and a minimum of work on the part of the credit union in loan approval and the necessary papers concerning the loan.

### Unnecessary delay

Many credit unions can tell the story of a member applying for a loan when the credit committee is in session and being told by a green officer or employee that, since the credit committee meeting has been called to order, application will have to be held until a future meeting of the credit committee—perhaps a week away. This is extreme, but it does illustrate what can happen unless every member of the credit union team understands that service is more than a word—that it must be an actuality.

### Chattel security?

Many credit unions refuse to take security other than co-signers. Frankly, I believe this is a mistake. The reason usually given is that the paperwork for the credit union is so much simpler if only co-signers are the security. Of course, it is. But, can that be the criterion upon which a decision is made that has to do with service for the credit union members?

I'll bet that many members of those credit unions actually go to the loan companies for money, rather than go to their friends asking them to co-sign. There are very few loan companies operating now that will not make loans on the basis of chattel mortgages—thus freeing a borrower from the embarrassment of asking for co-signers on his or her note.

### How do loan companies do it?

This should never be the basis of any service that credit unions grant their members, but certainly a look at the service loan companies give their customers can give us an idea of what services our members have every right to expect. A credit union is vitally interested in the over-all welfare of its members, and much of the work of the credit union is done by volunteers. But, this can never be an excuse for giving service that requires too much time, nor that is in any way embarrassing to the member. Courtesy to the member should be just as much a standard of operation with credit unions as courtesy to the customer is with the loan companies!

*H. Vance Austin*

## SENATE HEARING

### "Truth in credit"

(Continued from page 7)

and 6 percent is computed on the \$2,000 of the unpaid balance. It comes to \$120 per year, or \$300 for 2½ years, and he is given, let us say, 30 months in which to pay this. He pays it off at the rate of about \$66.67 a month, plus an interest charge of \$10 a month.

In the first month, that is 6 percent, but with a declining balance, he is paying \$10 on that last installment at the end of the 30 months of \$66.67; is he not? And that comes to, on a yearly rate, \$120 on \$66.67, or roughly 180-percent interest.

Do you think the interest should be charged as a percentage of the original obligation or as a percentage of the outstanding unpaid obligation?

**Mr. Martin.** I think it should be charged as a percentage of the outstanding unpaid obligation. That is the logical thing.

**Senator Douglas.** This is one of the central features of this bill. I want to thank you for your testimony.

Speaking in favor of the bill, a representative of the National Association of Mutual Savings Banks said that in making loans for home mortgages, savings bank officers frequently find borrowers overloaded with short-term debt. The speaker, Robert M. Morgan of the Boston Five Cent Savings Bank, largest bank of its type in New England, also pointed out some holes in the theory of repossessions.

**Senator Douglas.** Mr. Morgan, I take it you are in favor of the principle of this bill, S. 2755?

**Mr. Morgan.** Yes, sir.

**Senator Douglas.** Do you speak for the National Association of Mutual Savings Banks?

**Mr. Morgan.** I can only speak for the National Association of Mutual Savings Banks, but I am reasonably clear that most of the mortgage lenders would have no objection.

**Senator Douglas.** But do you officially speak for the National Association of Mutual Savings Banks?

**Mr. Morgan.** I do.

**Senator Douglas.** I want to thank you very much.

**Senator Bennett.** What is the average size of your mortgage loans approximately?

**Mr. Morgan.** The average loan is about \$12,000 to \$15,000.

**Senator Bennett.** So five dollars on \$12,000 could easily be absorbed and forgotten?

**Mr. Morgan.** That is right.

**Senator Bennett.** But if your average transaction was \$100, the \$5 would be something else?

**Mr. Morgan.** Right.

At this point let me say that the mortgage lenders see much of the problem of credit, on the other hand, of excessive extension of credit. We appraise the property,

we evaluate the individual's ability to carry the loan, and we underwrite a proper loan for him, what we consider to be a proper loan in amount, in terms, and in his ability to carry.

And then I must have to add that one of our major problems in connection with delinquency on loans is the fact that the borrower gets loaded down with consumer credit. He is sold fences, gas lamps, televisions, patios, pools, siding, in connection with his house, and the monthly charges run way up above what we underwrote as his ability to carry.

I think you might be interested in asking the FHA to produce their study. I do not know how far the study went, but 3 or 4 years ago they were seriously interested in determining how much of the trouble on FHA loans was arising out of the individual's subsequent purchases. To be sure, he must have incurred the bill. He signed for it, and he ordered it. But he loaded himself down so that not only did he get into trouble on his small loan, consumer loan, but he also got into trouble on the mortgage loan.

The typical case in this situation is that he takes on too much. He gets loaded down. Then he cannot carry the whole package. He tries to do what he would have been stopped from doing when he originally applied for the mortgage loan because we would not have agreed to carry the loan if we had known he was trying to carry so much.

**Senator Douglas.** May I ask this: Why do these other lenders and sellers extend the credit if they know that he is already mortgaged to you?

**Mr. Morgan.** I cannot answer for them. I have an idea why they do, but I cannot answer for them.

**Senator Douglas.** Would you share that idea with us?

**Mr. Morgan.** I think that frequently they do not sufficiently examine his ability to pay in view of all of his debts and all his carrying charges.

**Senator Douglas.** Is this because he does not make a full disclosure to them?

**Mr. Morgan.** It could be.

**Senator Douglas.** Or because they are optimistic?

**Mr. Morgan.** It could be that, or they could be optimistic. I think it may be both.

**Senator Bennett.** Is it not partly also because they know if he fails they can repossess, that most of them are selling collateral which has a value even if they repossess it?

**Mr. Morgan.** I think the question is perfectly in order, but I would ask you what salvage value there is in a fence that has been placed around a man's property, in a gas lamp that has been affixed to his house, in a television antenna that has been fastened to his roof, in a patio particularly, where the money has been spent for a patio or a pool that cannot be removed.

The experience of city welfare agencies shows much suffering results from unscrupulous retailers selling goods on credit to inexperienced urban families recently arrived from rural areas or foreign countries, said John Kearney of the Illinois Committee for Fair Credit Practices.

**Mr. Kearney.** Credit abuses have put a strain upon our judicial system, not only the local courts, which have

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processed the large number of wage assignments and garnishments, but also our Federal courts. It has been estimated, for example, that the wage-earner bankruptcies running through the Federal court in Chicago alone number 10,000 annually.

**Senator Douglas.** That does not take into account the local courts!

**Mr. Kearney.** Not at all. This is only the Federal court in Chicago.

Abuses of credit have been a plague on honest retail merchants attempting to do business, seeking only a fair rate of return in terms of finance charges for the privilege of extending credit, since the public's faith in the system of distribution is undermined by the extensive use of what can only be called nefarious methods in the hands of fringe operators.

Our system of providing welfare to needy cases has been put under a very severe strain by families left destitute, sometimes because of credit collections for goods they did not even buy, did not want, and cannot even use, simply because they have been inveigled into signing their names to documents which were later used to take their earnings away from them.

Mr. Wythe F. Cooper, the assistant director of the Madison Street office of the Cook County Department of Welfare, has estimated that a high percentage of the desertion cases coming to the attention of his office in applications for aid to dependent children are not true desertions at all, but rather what are known as "desertion because of debt" cases, where the father of the family discovers that he can no longer provide for his family with the small amount that is left from his pay check after garnishment and therefore leaves the family to receive welfare payments while he ekes out his existence in some other part of the city.

Credit in the metropolitan society is frequently extended by a store or its representative in the person of a salesman who calls from house to house. Sometimes rather dubious tactics are used in selling merchandise, and the amount of other payments which an individual is already making is not taken into account, since neither the store nor its representative will bother about the collection of the debt. A conditional sales contract is signed, and the note is then sold to an acceptance company, which then collects the debt with no reference to guarantees, warranties, or verbal agreements between buyer and seller. Should the debtor default on one payment, or even make a payment after its due date, many of these acceptance companies are very quick to present a demand in garnishment upon the employer—bringing a fourth person into the picture. The employer is then presented with a legal paper requiring him to pay the debt out of moneys earned by the debtor or to go to court and show why such should not be paid. Needless to say, very few employers will go to court. It is not an infrequent happening that a man will have his wages stopped when he has made no purchase whatsoever, but has committed the "crime" of having a very common name. Cases such as this abound.

But why shouldn't a man be required to pay his just debts? you will ask. Truthfully, we must say that these debts can scarcely be called just ones. The most obvious examples of legalized injustice are those where interest rates are highly unfair.

These are the simplest kinds of cases. There are others wherein different devices are used to obscure the extra

charges. Most common is the device of including additional charges along with the retail installment sales contract, charges which, as a general rule, are not part of the original bargain. In case No. 2, for instance, an individual purchased a used car advertised for \$1,295, including a 90-day warranty, whereby the garage would pay one-half of the cost of repairs to the automobile during the first 90 days of operation. But tucked into the retail sales contract was the figure of \$145 for advance payment for repairs. Presumably the payment of this \$145 did not in any way mean that the buyer was going to be able to avoid payment of 50 percent of the cost of repairs in the first 90 days. This and other charges brought the total cost of the car to the sum of \$3,036.80.

**The general manager of the St. Louis Better Business Bureau stunned the committee with some of his comments on kickbacks. John L. O'Brien said, however, that he believed that most auto dealers would be glad to see changes that would raise the ethical standards of their industry.**

**Mr. O'Brien.** I am president and general manager of the Better Business Bureau of Greater St. Louis, and a member of the Association of Better Business Bureaus Committee on Installment Contracts. For 13 years prior to August, 1959, I was president and manager of the better business bureau in Akron, Ohio, and there realized most of my experience in this field.

I am responding to the Senator's request that I discuss with you for a few moments the background of a practice known as "the pack" in some automobile time contracts and the manner in which it, as a tool, has become a means of unconscionably gouging the public out of millions of dollars in the hands of some unscrupulous auto dealers, sometimes with the active encouragement of certain finance companies.

Please understand that this is by no means an attack upon the automobile industry nor upon automobile dealers and financial institutions of good repute who have, through the complex economy of time payment financing, placed America on wheels and enabled our people to enjoy the pleasures and conveniences of mass transportation on a mutually satisfactory pay-as-you-go basis.

The time financing of automobiles as a new concept shortly after World War I was a risky business. Obviously, no conservative financial institution would touch such a thing when the unpaid creditor might find his collateral, the automobile, in the next State or in some convenient ditch long before all the payments were made. But a few specialized financing agencies decided to try it, particularly so long as the paper they were buying was completely at the risk of the dealer. This was known as "recourse paper" which meant that if anything went sour in the deal and the customer failed to pay, then the dealer simply got the paper back and had to worry about collecting for it himself.

Finally, some of the more enterprising financing agencies worked out an arrangement with some of their reputable, established dealers, whereby a little bit of each contract was held back to provide a sort of a cushion to



protect the dealer against those which went bad. This became known as the "dealer reserve" and it simply employed the principle of spreading the protection against a few bad deals over the cost of the majority of satisfactory ones. If, at the end of the year, there was still an amount remaining in the dealer's reserve accounting, meaning that most of these deals proved out as agreed, the amount was paid to him by the finance firm as a sort of a bonus.

After the automobile industry and its financial partner had struggled through the depression of the thirties and was on a sounder footing, more and more finance firms offered more and more auto dealers what was termed "nonrecourse paper." These were customers' notes and mortgages which the companies bought from the dealers on which the finance company assumed the entire collection risk, not expecting the dealer to buy it back.

**Senator Douglas.** Let us make this point clear. On this type of paper, there is no contingent liability of the dealer; is that correct?

**Mr. O'Brien.** No, sir, that is right. There are, of course, still recourse deals made with people of dubious risk.

**Senator Douglas.** I understand that. But on so-called nonrecourse paper, the risk is assumed by the finance company?

**Mr. O'Brien.** Entirely, sir.

**Senator Douglas.** And not by the dealer?

**Mr. O'Brien.** That is right, sir.

**Senator Douglas.** Thank you.

**Mr. O'Brien.** However, by this time the reserve account had been so firmly fixed that it remained, and the dealers began to enjoy regular and rather healthy bonuses from the finance firms at the end of the year's operation.

**Senator Douglas.** In other words, the so-called "dealer reserve" or "contingency reserve" has continued to be paid, even though the dealers did not assume the contingent risk; is that right?

**Mr. O'Brien.** That is absolutely correct, sir. It took on a slightly different complexion in that it became regarded by even the responsible finance companies as a sort of acquisition cost, whereby that was the cost of their getting this type of business from the automobile agency.

**Senator Douglas.** You mean that was kind of a finder's fee?

**Mr. O'Brien.** I suspect that would be a proper terminology.

Then began a period of cutthroat competition between various finance firms in their efforts to encourage auto dealers to turn the majority of their financial business in their particular direction and they offered ever-increasing percentages of the total amount of the contracts as "reserves."

**Senator Proxmire.** May I interrupt, Mr. Chairman, at this point?

**Senator Douglas.** Yes, indeed.

**Senator Proxmire.** It seems to me the great strength of this kind of financing is the fact that the seller can calculate his payments in such a way that repossession will always put the reposessor in a position to suffer no significant loss. I did a little bit of this in the implement business. I was an investor in the implement business and an officer in a company. We used to finance farm implements in this way. We would gain if the fellow we sold the implements to did not pay and we had to repossess.

It would seem to me the seller could almost always cal-

culate payments this way to protect himself. Of course, as you say, he cannot protect himself against somebody driving away to another State and disappearing. But the instances of this kind of thing are very few, is that not true? The reason I am raising this point is it would seem to me if the finance companies are going to take over entirely through their repossessions, they are in a far less efficient position to handle repossessions. Virtually every automobile dealer has a secondhand lot. Is it not possible that he can repossess a car, put it on the lot, sell it—and he is covered? If anything, he is likely to gain from it.

**Mr. O'Brien.** I fear, sir, that is not the common practice.

**Senator Proxmire.** Will you tell me what the common practice is?

**Mr. O'Brien.** The common practice on nonrecourse paper where the finance company has its own corps of men to take over the physical repossession techniques and problems, is that those cars are generally wholesaled, usually through one dealer outlet or possibly through a dealer auction lot in many, many cities.

You will find in the auto dealers' magazine, *Automotive Nation*, auction prices throughout the nation in various key cities. A good many of the repossessions go through there, as do other used cars, of course. But, by and large, repossession is not the function of the dealer today. He may buy at auction or may buy from several finance companies cars which are repossessed, but those are simply used cars on the used car market at that point.

**Senator Proxmire.** Let me inquire: Is it your experience that repossessions generally do not result in a substantial loss to the finance companies?

**Mr. O'Brien.** By the time the car is so far delinquent in the hands of the owner that it is in a position to be repossessed, the physical condition is pretty sad, too. The owner has, shall we say, railroaded the car, or been indifferent toward the car.

Generally, the technique is to repossess the car, sell it at a distressed price, very often less than the amount which is owed for it by the consumer, or the previous owner, who then is called upon by the courts, through the courts, to pay a deficiency judgment making up the difference.

**Senator Douglas.** Mr. O'Brien, may I ask you if you have any informed judgment as to the relative importance of recourse paper on the one hand and nonrecourse paper on the other?

**Mr. O'Brien.** Recourse paper today is in a very, very small percentage from our observation. There again, I have no statistical information to lay before the committee.

**Senator Douglas.** But that opinion is based, not merely on your experience in Akron and St. Louis, but also on studies which your committee of the Association of Better Business Bureaus on installment selling has conducted, is that true?

**Mr. O'Brien.** That is right. You see, in the competition between finance companies, or all financing institutions, for automobile business, few automobile dealers have to bother with recourse paper because, if one company insists on it, the next one will say, "We will take nonrecourse paper and take our risk over the spread of all the deals to make the collections without you having to worry about it."

The leader is rather in the driver's seat in the competition picture.



**Senator Douglas.** It raises the question of whether the finance company should pay a fee to the dealer for getting the business, or whether the dealer should pay a fee to the finance company for relieving him of the risk.

**Mr. O'Brien.** I would not be in a position to hazard an answer on that one, sir.

Most finance firms prepared rate charts showing the amount of monthly payments which would be required to pay off a given unpaid balance over a period of months as a means of assisting the dealer in figuring a customer's obligation quickly and easily. Customarily these companies also provided the dealers with several rate charts which carried increasingly higher rates, which were supposed to be based on the amount of risk which the company and/or the dealer would be assuming in the case of progressively older cars which, because of the greater risk, would command a higher rate. Persons with poor credit were also supposed to pay a higher rate to cover the company's probable losses. Some charts included insurance coverage, some did not. Seldom could the purchaser tell what he was getting. So often, as we shall see later, a multiplicity of such rate charts were provided the dealer and he could simply select whichever one best suited his needs, or the gullibility of his customer, and use it to convince his customer that his total obligation should be exactly what the rate chart called for. In such cases, by prearrangement with certain unscrupulous auto dealers and a few unscrupulous finance companies, the company would agree to buy from the dealer at the prearranged discount rate, whatever customer time paper the dealer chose to sell, and rebate to him any amount over the preagreed discount rate. This became known as "the pack." Unhappily, it still goes on today in many States where no control is exerted over time finance contracts of this type.

**Senator Douglas.** Just a minute, Mr. O'Brien. This is a very serious charge that you are making. Do you mean to say what the finance company does is to give the dealer a hunting license to go out and get as high finance charges as he can from the individual buyer and then he gets everything over a basic amount? He gets a percentage and, then, everything over a given basic amount?

**Mr. O'Brien.** I do.

**Senator Douglas.** This is based on a wide study on your part?

**Mr. O'Brien.** Yes, sir.

**Senator Douglas.** Do you have affidavits to prove this?

**Mr. O'Brien.** I have some sample rate charts, sir. By your leave, I will illustrate this in a little greater detail later on, but here is a series of charts presently in use—not "presently" to my knowledge, within the last 18 months—in the State of Georgia. I do not mean to pick on the State of Georgia, but this would be true of other States where there is no licensing provision and no control provision of the State.

You will notice at the top of each of these rate charts, there is a figure 7 with —96 —150 —163. By arrangement, the 7 is the amount of dollars per hundred which the finance company is charging.

**Senator Douglas.** That is percent?

**Mr. O'Brien.** The number of dollars.

**Senator Douglas.** Dollars per hundred is equivalent to percent. On the original obligation?

**Mr. O'Brien.** Yes, sir.

**Senator Douglas.** So if it is paid off in even installments, it would be almost 14 percent, 14½.

**Mr. O'Brien.** Yes, sir.

**Senator Douglas.** Yes.

**Mr. O'Brien.** The other figures, the 96, 150, and 163—those were only illustrative—are the amounts of dollars in those monthly payments for the 12-month period in addition to the 7 percent. That is the amount which the company employing that chart is willing to rebate to the dealer.

**Senator Douglas.** You mean that on this first rate chart, the dealer gets \$96?

**Mr. O'Brien.** Right.

**Senator Douglas.** On the second chart, he gets \$150?

**Mr. O'Brien.** Right.

**Senator Douglas.** On the third chart, he gets \$163?

**Mr. O'Brien.** Exactly.

**Senator Douglas.** What determines which chart is used on what person?

**Mr. O'Brien.** We have called it "dealer's choice" in chart III.

**Senator Proxmire.** Dealer's choice. I see. So whether the customer pays \$96, or \$150, or \$163 plus the interest is a matter of the salesmanship of the dealer, plus his judgment of what he can get out of the customer?

**Mr. O'Brien.** Unhappily, that is what it boils down to. Of course, the theory is that it is based on the degree of credit risk.

**Senator Proxmire.** You say that certain unscrupulous auto dealers do this. It would seem to me it would be exceedingly tempting for every dealer, unscrupulous or not, just in competition, if he is going to survive, to get as much as he can get under these circumstances. Why would not this kind of practice, because of its impact, become widespread rather than rare?

**Mr. O'Brien.** Mr. Senator, it is widespread. But in 20 years at the business in which I find myself, I am still an idealist. My contact has been with automobile dealers of repute as well as those of ill repute. The restraint of some of these men, and responsible men, who are in the business to stay is such that this type of thing is not in that degree as general as it might seem to be.

Actually in today's marketing conditions wherein the customer is led to believe by some automotive advertising that stupendous discounts and "long" trade-in allowances are the regular thing, the dealer reserve in the finance company is often the difference between profit and loss at the dealer's yearend accounting. This is true even of many reputable dealers who are driven to matching the offers in the wild advertising claims of their competitors. They, of course, on the "reserve" basis, rather than on the "unconscionable pack" receive what is a reasonable compensation for their services from the finance company in acquiring business for it.

**Senator Proxmire.** In virtually all cases, they get this finder's fee?

**Mr. O'Brien.** That is right.

**Senator Douglas.** You mean to say that the commercial banks do this, too?

**Mr. O'Brien.** Commercial banks, in my personal experience, have set up departments of consumer finance whereby they do work directly with auto dealers, and they floor plan them, as we outlined previously. They likewise pay them the finder's fee in connection with the business turned their way.

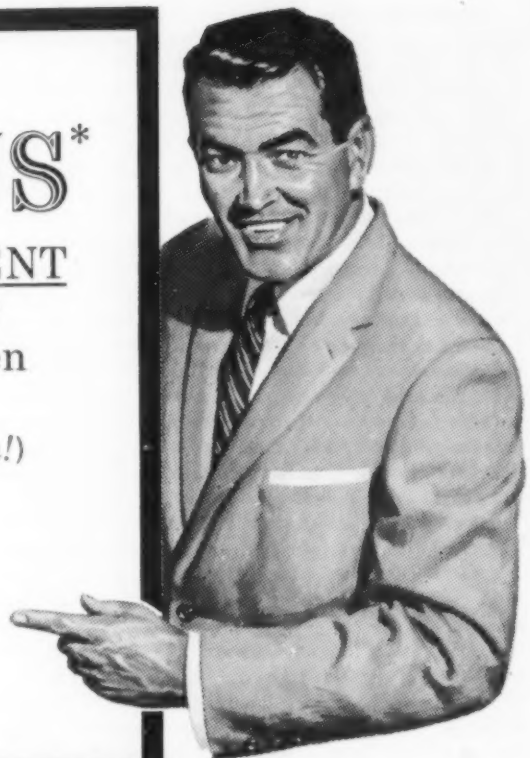
I might say in passing that in some of those situations, this, ultimately, to the consumer, even with a finder's fee,

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**Senator Douglas.** Do you have any evidence how a dealer will decide whether or not he is going to get \$96 or \$150 or \$163 from the finance company? How does he classify his people?

**Mr. O'Brien.** I fear I have not been in the closing rooms of dealerships often enough to know. I say the theory is based on the credit of the credit risk, age of the car, or things of that sort. However, I fear, unfortunately, it becomes whatever the traffic will bear in the dealer's estimate.

**Senator Proxmire.** You said, "the gullibility of the customer."

**Senator Douglas.** It so happens that yesterday morning I was reading an article in the current issue of Commentary on wiretapping—I think it was written by a man by the name of Allen Westin who is, I believe, a professor of Columbia—which mentioned these devices. If my memory is wrong, we will strike it from the record.

He stated that this had been set up in the private rooms of some automobile dealers so that the salesmen would step out, but they could overhear the conference between husband and wife and then could decide which chart was to be applied.

**Mr. O'Brien.** I have not seen the devices in operation, sir.

**Senator Douglas.** Have you heard of them?

**Mr. O'Brien.** I have heard of them, sir.

**Senator Douglas.** Is the information which you have received such as to give it a good deal of credence in your judgment or is it irresponsible gossip?

**Mr. O'Brien.** It is not irresponsible gossip.

Responsible business firms, the thousands of reputable automobile dealers and financial institutions who were being unwillingly caught in this quagmire, have carried on a long battle, spearheaded by the better business bureau, to seek ways of eliminating the "pack" through public education, exposure of the culprits, through group standards of business conduct, and many other ways.

One of the astounding things to me, as an individual, about the automobile industry and the associations which are present in every State and every city and, of course, national organizations, are standing committees on ethics. Sometimes, they give it more lip service than operation, but they are so acutely sensitive to the term, for instance, "horsetrader," which has been applied to automobile dealers and, unfortunately, many of them have earned it, but there is a vast bulk of them who support better business bureaus.

**Senator Douglas.** These people are not willing to come out publicly, are they?

**Mr. O'Brien.** I could not speak for them on that point.

**Senator Douglas.** Have they made public statements they are supporting your investigation, or have they made surreptitious requests to come over into Macedonia and help?

**Mr. O'Brien.** I do not believe there is anything surreptitious about it. I believe they might find themselves somewhat less articulate than myself.

**Senator Douglas.** But it is a real plea for help?

**Mr. O'Brien.** A real continuing thing, and I am speaking for over a period of 20 years of personal experience, working for better business bureaus, three different ones, now, with the automobile industry.

**Senator Douglas.** What you say is very encouraging.

I made some speeches out in Chicago in which I said that we were trying to protect the decent man in the industry from the unethical competition of the less decent and that they should be grateful to us for trying to raise the moral level, helping the decent ones to survive.

**Mr. O'Brien.** Senator, may I depart just a little from script and discuss that point because I think it is terribly important that the automobile industry not be tarred and feathered in this hall. I am sure you agree with me.

The Chicago Better Business Bureau is the second largest in the nation and has enjoyed substantial support from the Association of Automobile Dealers in Chicago. They get out a weekly bulletin which takes a very hard whack at advertising malpractices in the auto field. But the representative automobile dealers through their association support that bureau greater than any one in the country.

The board of our Automobile Dealers Association in St. Louis just recently discussed an advertisement by a national finance firm of some years ago which, by and large, said the best time payment deal is not always the longest one. You may be familiar with the ad. They felt that their local finance companies, or the dealers association in St. Louis, ought to undertake an advertising campaign of the same sort.

The auto dealers of St. Louis, and I can speak very, very much from the heart on this thing because these men are working through one of the strongest ethics committees I have ever seen—they have teeth now whereby they throw out certain of their dealers for advertising deviations.

**The argument that consumers would be confused by simple annual interest rates was urged on the committee by a representative of the National Retail Merchants Association, Duncan M. Holthausen.**

**Mr. Holthausen.** The requirement in the proposed legislation to quote simple annual interest on all consumer accounts shows a lack of understanding of the credit service charge. Further, it invites comparison with the traditional 6-percent simple interest that we all learned about in grammar school, and, as such, it is intended to make the consumer feel that credit costs are excessive.

**Senator Proxmire.** Don't you think it is time to expose that?

**Mr. Holthausen.** I heard you ask that before, sir. I think it is time that, if we are going to do that, the expression of interest you have asked for in this bill will, in my opinion, not tell the average customer, nor will it give them a basis for comparison that is meaningful to them of different types of accounts. I have dealt with many consumers myself. I have handled many transactions on the floor. These people are primarily interested in the dollar amount of charges involved. And I say that the person being ahead, sir—

**Senator Proxmire.** I think you make an excellent point, and it is very persuasive, but my question is: Don't you think it is time we tried to educate the public to understand that 6 percent is an interest charge that cannot be applied intelligently to a transaction?

**Mr. Holthausen.** I think if we are going to do that, we better start back in grammar school, and this is going



to take a long time. I don't think you can even educate the retailer as to what simple interest is. I have asked retailers on our street; they all are involved in credit; they don't know how to compute it.

**Senator Proxmire.** And you throw up your hands and say, "You can't do it; it is impossible."

**Mr. Holthausen.** I don't say, "You can't do it," but you should do something that is practical and people will understand.

**Senator Proxmire.** Go ahead. Let me say, when a retailer gets a simple loan from a bank, he gets a simple rate of interest, doesn't he?

**Mr. Holthausen.** You pay a simple rate; first of all, if we borrow from a bank, we would borrow in very sizable amounts. It is a one-time transaction. It is a one-item transaction. We deal with the same bank and have dealt with it for many years.

**Senator Proxmire.** You know exactly what you pay.

**Mr. Holthausen.** We know we are paying  $5\frac{1}{2}$  or 6 percent. We also know we have to maintain compensating balances of probably 20 percent of the amount you borrow.

**Senator Proxmire.** But you know exactly what you are doing; you know it is 6 percent, plus maintaining your balances, and so forth.

**Mr. Holthausen.** We know that we are paying 6 percent for this; yes, sir. I say that the consumer, if you tell him he is paying 12-percent simple interest or 15-percent simple interest, this doesn't educate him. He doesn't know what to relate it to. This percentage is computed against the average amount of credit available during the period of the time the contract runs. This the average consumer doesn't know, and I don't know how you will explain it to him.

**Senator Proxmire.** He won't until you pass this bill, certainly.

**Mr. Holthausen.** I don't think he will know it even then. People want to know how many dollars are involved. They say: Don't tell us about percentages. We are not interested in that. If we want to compare the cost in your store to the cost down the street—for example, someone is buying a GE refrigerator for \$200, and our finance charge comes to \$10 for a certain period of time. These people are able to go to the competitor's store and find out what his finance charges are in dollar terms and this makes sense to them, and this is the only way I have seen these people operate. In other words, the total cost in the one case was \$210 and the total cost in another case was \$215, including the credit charges, so they are taking a comparable item, just as in an automobile case, where a man is buying a car for \$2,500. If he has enough stick-to-it-tiveness and wants to find out what the dollar finance charge is, I know there are complications occasionally with insurance and other things, but he can certainly get the total cost of his car from several automobile dealers, and he can get the rate the finance company is going to charge, and he can get the rate the bank is going to charge in dollars, and this is the only way. If he is paying \$2,500, and in one place the finance charge is \$200, and in the other case it is \$250, and they are both for 2-year periods, he knows what they are talking about.

**Senator Proxmire.** They are both for 2-year periods, and the same amount. It is easy. But the point is you can relate it, so whether he is buying a television set or a washing machine or automobile and whether he is paying for

it in 6 months, 24 months, or 36 months, the simple annual interest is the only way he can translate it into a meaningful term.

**Mr. Holthausen.** Not to the consumer who comes into the store. If she buys a refrigerator for \$200, she knows whether she can pay for it in 12 or 24 months.

**Senator Proxmire.** But she doesn't know whether that payment is fair.

**Mr. Holthausen.** During the past 2 weeks I asked a number of customers and acquaintances a very simple question about simple interest. Not one person answered correctly; and many were college graduates including retailers. Here's the question: How much in dollars does 10 percent simple annual interest amount to on a \$120 loan paid off in 12 equal monthly installments. The answers varied from \$12 to \$30. Not one person knew it was less than \$12, and most of them today still don't believe that it's \$6.50.

If a retailer told a customer that the cost of a revolving credit account was 18 percent in simple annual interest, I am sure the consumer would say he was mistaken. Why? Because people apply percentages to sale prices, not to average outstanding unpaid balances. A consumer would never understand that a \$60 item paid for on a revolving credit agreement in 6 monthly installments at 18 percent simple annual interest would cost \$3.15 or 5.2 percent of the sales price of the article. The consumer would assume that the cost was 18 percent of \$60 or \$10.80.

This understandable lack of knowledge on the public's part about the costs of retail credit in relation to simple interest, may cause widespread resentment against hundreds of thousands of legitimate business concerns if the interest rate disclosure provisions of the proposed statute were enacted.

It would be a boon to the type of operator given to misrepresentation who will conceal his credit charges in the mark-up of merchandise, or take advantage of the public's complete lack of knowledge on interest rates by quoting simple interest rates that suit his particular needs. The public would never know the difference. The mere passage of legislation will never educate the public to the meaning of simple annual interest as applied to installment accounts.

**Governor Orville L. Freeman** described an attempt he had made to get similar legislation passed in Minnesota, and said he thought a federal law would be better than state legislation in this field.

**Governor Freeman:** When new legislation relating to consumer credit is proposed in most state legislatures, including ours in Minnesota, it is usually sponsored and promoted not by consumers but by those engaged in a business that will benefit by such legislation. They seek more favorable rules under which to operate. There is a likelihood that the pressures brought to bear on a legislature will be overwhelmingly one-sided. Most of the carefully prepared testimony and skillfully presented arguments are presented by those whose special interests will be served by the legislation sought. Pages of statistics are offered with conclusions so cleverly drawn that they appear most convincing,—yet so difficult for the average legislator to analyze correctly that they remind me of the noted



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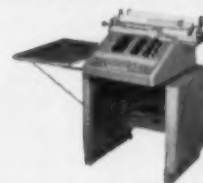
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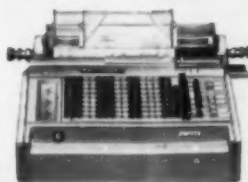
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statistician, who was six feet tall, who drowned while wading across a stream that had an average depth of three feet. No very articulate and organized voice of the consumer is likely to be heard.

It was because of this situation that I appointed a Governor's Study Committee on Consumer Credit in 1957. I asked the committee to study consumer credit practices in Minnesota and to present a report on facts and conclusions that might serve as a guide in developing legislation that would promote the public interest as well as sound and constructive operation of the business institutions that extend consumer credit.

Early in 1959 it produced a report (copies of which are presented to this committee) containing 23 recommendations, for some of which it also presented conflicting minority reports.

Many of the recommendations were remedial measures to apply to Minnesota laws relative to various kinds of consumer credit. One recommendation was to "urge the enactment of a law requiring that in all forms of agreement for consumer credit the amount charged, either as interest or finance charge, must be stated in terms of simple interest on an annual basis."

The committee report further stated the following: "The deliberations of this committee have brought out clearly the variety of rates charged. They have also brought out the necessity for different rates applying to different kinds of credit. We have learned that it is sometimes extremely difficult to determine exactly what rate is both adequate for the lender and fair to the consumer. Yet we can see no valid argument in opposition to letting the borrower know exactly what rate he is paying."

The committee supported its recommendation by stating that "it is traditional in our economy that when people are asked to invest money, the returns are expressed in terms of simple interest. People understand what that means. It is likewise traditional in our economy that we permit freedom of choice among competitors provided there is an honest and clearly understandable statement of terms."

During the 1959 session I sent to the Minnesota Legislature a special message on consumer interests in which I recommended a simple annual interest disclosure bill.

After the presentation of this special message, identical bills to provide for the disclosure of the simple annual interest rates were introduced in both the House and Senate of the Minnesota Legislature. A few weeks thereafter I sent a letter to each member to emphasize the importance of these bills as the "most important of all bills in this field from the point of view of the people whose interests we are elected to serve."

The bill received some public support—from a few credit unions and labor unions, and from many interested individuals. Representatives of one of the large independent commercial banks helped us with the bill but took no stand publicly.

The nature of the opposition to the bill is worth noting. Opponents presented oral and written arguments to members of the committees and to other interested members of the Legislature. In general, the opposition was along two lines.

The first was typified by the following quotation from one of the letters sent to all members of the legislature. "No retailer can afford to extend credit at simple interest

rates the public is familiar with."

The second approach was less frank but more prevalent. It took the position that for installment credit the calculations necessary to present an honest statement of the simple annual interest rate were so complicated that compliance would be impossible.

The difficulty in computation was particularly emphasized with regard to the practice of adding on new credit purchases after a former contract was only partly fulfilled, and with regard to the practice of "ballooning" in contracts for the purchase of automobiles.

A third argument sometimes used was that customers did not want to know the interest rate but merely the monthly payment.

I should like to make a few comments with regard to these arguments in opposition to a simple annual interest rate disclosure bill.

First, I do not believe the argument that "no retailer can afford to extend credit at simple interest rates the public is familiar with", because some retailers do just that. But the very presentation of this argument is evidence, not only of how high some of the charges are, but of how deceptively they are expressed. One of the complaints we received in Minnesota was that of a young couple, both college graduates and both holding good positions, who bought furniture on time at what was described as a five percent carrying charge, only to discover that the charge was five percent a month. When they learned the facts they were able to get a credit union loan at the rate of 12 percent simple annual interest instead of the sixty percent they would otherwise have been charged.

Second, I regard the "difficulty of computation" argument as pretty much of a smoke screen. It would seem as though some of the techniques of extending credit have been designed to conceal instead of disclose the true cost, and that in such cases computation is intentionally difficult. I have no doubt that the ingenuity of credit institutions will be sufficient to devise methods of extending installment credit in which the true cost of credit can be calculated and expressed in terms of simple annual interest that the consumer will understand.

We did not succeed in enacting our simple interest bill in Minnesota on this first attempt. There was opposition, though not much that was publicly expressed. I believe that the chief reason for its failure, however, was lack of sufficient education and understanding. Interest and support have been growing steadily, and I look forward to greater success the next time.

I hope that the Congress of the United States will enact the bill we are discussing today. If I were to suggest any change I would urge an amendment to strengthen it by requiring disclosure in advertising as well as "to each person to whom such credit is extended."

I note that the bill provides for exceptions in the case of substantial compliance achieved under the law of any state. It may therefore be appropriate to state why I support Federal legislation on this subject and at the same time continue to urge such legislation in my own state.

The burgeoning field of consumer credit and the problems it involves are national in scope. The big financial institutions are nation wide. Mail order credit is increasing.

In the growing installment credit field the total ab-

sence of any effective legislation in some states and the lack of uniformity among the states that have adopted an installment sales act of some kind leaves the major areas of installment sales financing totally unregulated. The interstate sale and discounting of trade acceptances and commercial paper is an integral and indispensable part of the financing of installment sales. The establishment of uniform standards and practices would appear almost essential to the efficient operation of this gigantic credit system. To require financial institutions to tailor their forms and practices to each state's separate laws is in itself an additional burden and expense that the consumer should not be required to bear.

Even more important, the adoption of a bill such as S. 2755 would impel those states that have dragged their feet in this important area of legislative responsibility to adopt effective measures to protect consumers from over-reaching on the part of selfish or unscrupulous lending agencies.

In this important area action is necessary in the interest of the American people, and I believe it may be easier to achieve such action by Congress than from the several states. I believe that here in Congress you are less subject to immediate pressure of special interests. Legislation is a full time job for you. You have superior facilities for getting at the facts through hearings such as this.

**Julius Stone, president of the Credit Union National Association, told the committee the credit union movement would be glad to comply with a law that would require all lenders to express their rates on a simple annual basis.**

**Mr. Stone.** Mr. Chairman, members of the committee, my name is Julius Stone. I am president of the Credit Union National Association, a nonprofit association of State credit union leagues, representing 17,000 affiliated credit unions throughout the United States, comprising approximately 10 million saving and borrowing members.

We appear before this committee to testify in support of S. 2755, the full disclosure or truth-in-lending bill.

I'm accompanied by Mr. R. C. Morgan, treasurer-manager of the Government Employees Credit Union, El Paso, Tex., and Mr. Donald J. MacKinnon, treasurer of the Ford Dearborn Federal Credit Union, Dearborn, Mich. Their statements will follow mine.

These gentlemen face the problems of misleading practices in consumer lending daily. They have brought with them specific information and examples that have come to their attention in regard to credit union members who have been misinformed or misled by existing practices of stating the terms of consumer credit contracts.

Because they encounter these problems repeatedly, credit union officials are keenly aware of the difficulties that face today's borrower in making intelligent decisions concerning the use of consumer credit.

It might be useful to the committee to first review some of the history of credit practices.

In 1909 it was not clear what rates should be charged on small loans, or how they should be stated, and the law simply provided that "reasonable rates" should be charged. In a few years, however, agreement developed among

credit union officials that a fair rate would be 12 percent—or 1 percent per month on the unpaid balance—and during the 1920's and 1930's, when most States passed their credit union laws, this was the rate that was established in the respective credit union acts. The Federal Credit Union Act, which was passed in 1934, states that credit unions may charge a maximum of 1 percent per month on the unpaid balance inclusive of all charges incident to making the loan.

**Senator Douglas.** That is a very interesting phrase, "1 percent per month of the unpaid balance, inclusive of all charges incident to making the loan." What about the credit investigation?

**Mr. Stone.** There is no charge made for that, nor is there any charge made for the service which the credit union renders, nor is there any charge made for the credit life nor for life savings. All of this is part of the expense of operation by the credit union and they give these services together with additional services such as budget and family counseling. There is no charge for any of this. The charge which they make to the members of the credit union is not more than 1 percent per month on the unpaid balance and some credit unions charge less than that. Some credit unions are now giving interest refunds at the end of the year, which reduces the rate.

**Senator Douglas.** Let me see if we can bring this out more fully. No charge for executing the documents?

**Mr. Stone.** No, sir. No charge for chattel lien insurance. No charge for recording. No charge for credit life insurance. No charge for life savings. No charge for recording or attorneys' fees of any kind.

**Senator Douglas.** And to the extent that there is a cost, it is all recovered in the interest or finance charge, not to exceed 1 percent a month?

**Mr. Stone.** Yes, sir. And interestingly enough, that idea was included in the thinking of the Russell Sage Foundation, when it set up a remedial loan division in 1909, and the standards for small loan legislation promulgated by the foundation included eight points. The very first point is what we are discussing.

(1) An adequate interest rate should be permitted on small loans, but no fees should be permitted. The interest rate should cover all charges.

This is the very first principle they enunciated in 1909, when they first talked in terms of what ought to be done.

Many of us believed that as members used their credit unions, they would come to understand the "mysteries of consumer credit" and learn to borrow wisely. To some extent, this has happened; yet, we certainly cannot pretend that over 11 million credit-union members are now rational, economic men who shop wisely for credit and bargain effectively. On the contrary, we know that many of our members are quite unaware of what the true costs are under the many different methods of stating the terms of consumer credit.

Over the years, we have produced and distributed various types of educational materials. We have held many meetings and discussed credit rates in millions of personal interviews, yet there seems to be little progress made. The highly educated credit-union members seem to have as much difficulty as the less educated members in coming to grips with the subject of credit costs.

We find this is true in some of the teacher credit unions, for example.

I am convinced that 9 out of 10 credit-union members



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do not know that there is a difference between the way interest is stated on a home-mortgage loan and the way it is stated on a personal loan. Again, this confusion arises out of the variety of ways in which credit rates are stated.

Today, because of the lack of an adequate full-disclosure requirement for consumer-credit transactions, lenders have ample opportunity to induce the unsophisticated borrower into paying exorbitant charges. Kickbacks and commissions have resulted in a kind of reverse competition in which there is rivalry to provide the merchandise dealers with the fattest possible "pack."

**Senator Douglas.** Mr. Stone, you heard the testimony of Mr. Cheever this morning that he knew of kickbacks and commissions being paid to dealers and lenders in South Dakota. Is this a matter of personal knowledge on your part?

**Mr. Stone.** I know of certain instances where automobile dealers have asked their people not to do business with credit unions at a low rate because there are kickbacks that the automobile dealers are receiving which makes it advisable to do their business with others.

**Senator Douglas.** Are there kickbacks on finance charges or commissions on credit life insurance charges?

**Mr. Stone.** I think they have in both cases, but mostly in the finance charges.

**Senator Douglas.** You are the president of the national association. What is your local experience?

**Mr. Stone.** I have some personal knowledge of that in Boston and my impression is that my colleagues from Texas and Michigan can probably confirm that.

**Senator Douglas.** You are the manager of a local credit union?

**Mr. Stone.** I am the treasurer of a local community credit union and have held that position for 33 years in Boston.

**Senator Douglas.** And you have been in charge of the loans made by that credit union?

**Mr. Stone.** Yes. I am familiar, as a member of the credit committee of that credit union with the loans made.

**Senator Douglas.** Therefore, you can testify as a matter of personal knowledge that such commissions and kickbacks upon insurance in the handling of finance papers do exist?

**Mr. Stone.** Yes.

**Senator Douglas.** Mr. Stone, we had yesterday an expert witness who was executive director of the National Foundation for Consumer Education who said, if we were to require the interest rate to be stated as a true annual rate upon the outstanding balance, we would confuse the buyer or borrower. Do you agree with that?

**Mr. Stone.** No, I do not agree with that. In the first place, our experience over the years has indicated that we have done that with people on a monthly basis and it seems to me it would be simple to educate them to change their thinking from a monthly basis to an annual basis. It doesn't seem to me that it presents much of a problem.

**Senator Douglas.** Go ahead.

**Mr. Stone.** Although credit unions have historically stated their charges by a true monthly rate, we would be happy to comply with the requirements of this bill.

**Senator Douglas.** When you make this statement, are you making that statement as an individual or as a representative of the Credit Union National Association?

**Mr. Stone.** May I answer this, Senator, by saying that the executive committee of the Credit Union National

Association, which represents the national directors between the meetings of the national directors, has taken up this bill and has discussed it and voted to approve it, and I am authorized to speak in behalf of the association and to say to you that the duly elected officials of the organized movement have approved this bill. So when I say that we would be happy to comply with the requirements of this bill, I think it is implied in the approval which we have given to this bill and the position we have taken on it.

**Senator Douglas.** And there are some 10 to 11 million members of credit unions?

**Mr. Stone.** Yes, sir.

**Senator Douglas.** Thank you very much.

**R. C. Morgan, president of the Texas Credit Union League, told the committee he had never in 25 years experience found a member who knew what rate he was paying on his outside debts.**

**Mr. Morgan.** Mr. Chairman, my name is R. C. Morgan, and I am the treasurer-manager of the Government Employees Credit Union in El Paso, Tex.

I might also state that I am president of the Texas Credit Union League, representing about 1,100 credit unions having some 650,000 members. I am authorized to speak both for the board of directors and the members of my own credit union and for the board of directors of the Texas Credit Union League.

My credit union has approximately 11,000 members. These people are employees, and members of families of employees, of the U.S. Government in El Paso, Tex., and vicinity. They come from all of the many agencies of the Federal Government in the El Paso area. Included are employees of defense establishments such as Biggs Air Force Base, Fort Bliss, and White Sands Missile Range. These employees are of all types, from the top administrative officials of the various installations down to and including janitors and common laborers. They not only do all kinds of work and represent all levels of incomes, but most of them have money problems from time to time. And they bring their problems to the Government Employees Credit Union, hoping to find a solution.

I would like to tell you that in interviewing thousands of these people in connection with loan applications (my credit union granted over 14,000 loans last year) all too often we find them to be deeply in debt—many times actually financially insolvent—due to their lack of understanding of the costs of credit. Many of these people have gotten in debt so deeply, and so far beyond their means to repay, that they are running from one lender to another, pyramiding finance charges upon finance charges in a desperate and futile effort to keep their heads above water.

**Senator Douglas.** Mr. Morgan, I believe that Texas has no small loans law; is that correct?

**Mr. Morgan.** That is correct.

The Government employee members of my credit union are, I believe, of average or above-average intelligence. They are, perhaps, better paid than the average working citizen of the El Paso area, and certainly they enjoy more job security. They are, therefore, in a better position to

prudently manage their financial affairs than are the rank and file of the people in El Paso, Tex., and vicinity. Yet, when I have asked these people, who have come to my credit union hoping to consolidate their debts and reduce their monthly payments, "How much interest are you paying on this particular account?" I have never found one who could correctly state in simple interest terms what he was paying.

**Senator Douglas.** This is an extraordinary statement; that you have never found anyone.

**Mr. Morgan.** I have never found a single one who could correctly state the costs in simple interest terms. He could state 8 percent, but upon investigation, it would prove not to be 8 percent, it would be 15½ percent.

**Senator Douglas.** How many thousands of cases have you passed upon?

**Mr. Morgan.** I made 14,000 loans last year.

**Senator Douglas.** Did you pass on all of these cases?

**Mr. Morgan.** Although I did not personally talk to all of these people, I talked to a great number of them and, as a member of the credit committee, I approved each and every one of these loans.

**Senator Douglas.** How many years have you served in this post?

**Mr. Morgan.** Approximately 25 years total experience in credit union work. I have been full-time treasurer and manager of my credit union since 1952. Before that it was as a volunteer unpaid credit committeeman.

**Senator Douglas.** I can't think of anyone who has had wider experience than that, and you have never found a single case where a borrower knew the actual rate of interest he paid.

**Mr. Morgan.** Not one.

On the other hand, I have repeatedly received such answers as: "8 percent," "I do not know the exact rate, but it is very reasonable," and, "The dealer told me it was a bank rate," and so on. When we get into the details of the individual credit transactions of our members, we find such a bewildering variety of charges, methods of stating charges, and, in many cases, methods of misstating charges, that it is small wonder these people do not know what they are paying for credit.

I submit to you that it is bad enough for a person not to understand the legitimate charges for credit made by banks and reputable lending agencies. It is much worse when an unsuspecting consumer is deceived by an unscrupulous salesman or lender and when we permit a situation to exist which makes it impossible for the consumer to compare rates and shop for the most reasonable source of credit.

I know that the members of my credit union are being deceived, and I know they have little chance to compare rates and shop for credit. Time after time people have told me they financed an automobile "through the dealer" because the salesman "said the interest was lower than the credit union rate." Or, "The salesman said the credit union charges 12 percent and he could get it financed for 9 percent." The 9 percent rate, of course, is applied to the entire balance to be financed, and is actually 50 percent higher than the credit union rate.

Now, if I may suggest, Mr. Chairman, I would like to present just two or three of these cases in detail and then, possibly to save time, merely extemporaneously summarize some of the others. On the other hand I would be glad to go into all of them in detail.

The first case is one that is given in a little more detail than some of the others. The things that this case illustrates, however, apply with equal force to all of the others.

**Case 1:** This case concerns a Latin American employee of the U. S. Immigration and Naturalization Service. He is a detention officer, has a wife and five children, and his take-home pay is \$328 per month. He has been employed by the U. S. Immigration and Naturalization Service since September 1955, and has been a member of our credit union since December, 1955. He is a good, honest, hardworking family man, and he has the same weakness so many good Americans have these days—he likes to provide his family with the same fine things his next door neighbor's family has, including shiny, new automobiles with lots of chrome.

**Senator Douglas.** In other words, he likes to keep up with the Joneses.

**Mr. Morgan.** That is right.

In May of 1959, this member—whom I shall call Mr. A.—received a \$300 refund from his 1958 income tax. The combination of the \$300 in his pocket, a balmy Sunday afternoon, and the glitter of new car chrome in a show window proved to be too much for him. On May 3, 1959, he purchased a new 1959 Ford country sedan.

I have here the original dealer's invoice showing Mr. A's deal. The invoice shows the total price of the automobile, including license, State tax, and filing fees (these figures, incidentally, are itemized) was \$2,985.34. Under this total, the invoice shows "Cash—\$300." That was Mr. A's income tax refund. Under the \$300 is the figure \$2,685.34, (simple arithmetic, subtracting the \$300) and opposite this, to the left, are these words, "Lien to — Finance Co. for \$3,219.12, payable 36 at \$89.42 beginning June 15, 1959." A line is then drawn under the \$2,685.34 and the figure "\$2,985.34," which again goes back to the cash price of the car, and this is not the time price or anything like that, is entered just below the line. Nowhere on this invoice is there any mention made of interest, finance charges, insurance, or any other type of charges. It simply says, "Lien to — Finance Co. for \$3,219.12 payable 36 at \$89.42." I asked Mr. A if he knew what a "lien" was. He said he did not. All he knew was that he was paying \$300 down on a new Ford station wagon and that his payments would be \$89.42 per month.

Sometime later, Mr. A does not remember when, he received in the mail a pink piece of paper which I also have here. This document itemizes the transaction as follows:

Bona fide cash selling price (including taxes, service, and extra equipment) .....	\$2,985.34
Down payment Cash .....	300.00
Cash unpaid balance .....	2,685.34
Total unpaid balance .....	2,685.34

Incidentally, I don't have it in here, but Mr. A told me that he signed all of these papers in blank and sometime later they mailed them to him.

Then we have a time differential of—and it says on this paper, and I am quoting from it: (includes insurance)": \$533.78.

Contract amount .....	\$3,219.12
Payment in 36 monthly installments of \$89.42 beginning June 15, 1959.	
Add down payment .....	300.00

He had made a down payment of \$300.

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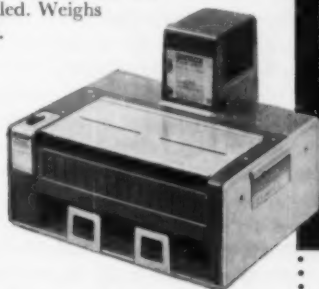
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**Senator Douglas.** Then he added the payment of \$300. He had to make the payment twice. He had to pay the original and they added it to the bill and he had to pay it again. Since when does a down payment become a liability?

**Mr. Morgan.** If this is confusing to us, think what it must be to this borrower, the poor guy that bought the automobile.

So they come up at a time selling price here of \$3,519.12.

Please note that nowhere is the true cost of financing the automobile shown in simple terms. A time selling price, and also an item called time differential (includes insurance), are shown. The fine print also contains the following statement:

The insurance listed herein has been approved by the undersigned. The seller is authorized to place such insurance for my benefit, in any company or companies of his choice. I hereby certify that I was given the option to purchase such insurance from any insurer or agent of my choice.

That is buried in very fine print here, and recall that he signed this thing in blank.

I am calling your attention to the fine print because the records of my credit union show Mr. A already had automobile insurance in effect, including all the coverages which could reasonably be required by a finance company. The records further show that this insurance was transferred to Mr. A's new 1959 country sedan. Despite this, Mr. A told me the finance company later added \$300 to his account for insurance.

**Senator Douglas.** You mean \$300 in addition to the \$3,500?

**Mr. Morgan.** In addition to that.

**Senator Douglas.** So the total charges were \$3,819.12 for an obligation of \$2,985.34.

**Mr. Morgan.** Yes, sir.

I may add in fairness here that upon our advice, he went to the finance company and raised Cain about that and took his automobile insurance policy in his hand down there, and they did rebate a portion of that charge. They did that because the Texas law is rather explicit, I believe, in that two insurance policies cannot be required on the same vehicle.

I learned about Mr. A's financial problems when he came to the Government Employees Credit Union on February 29, 1960, and applied for a loan in the total amount of \$4,065.62 for the purpose of refinancing the 1959 Ford country sedan, paying doctor and hospital bills for his wife, and consolidating various other debts. In an effort to help him, we telephoned the finance company for a net payoff on the automobile. They told us the payoff would be \$2,452.62. Mr. A told us he had made eight payments on his car (you will recall his first payment was due, according to the invoice, on June 15, 1959). Since the payments were \$89.42 each, Mr. A had paid \$715.36 (8 times \$89.42). Subtract that amount from the cash unpaid balance of \$2,685.34 shown on the pink sheet sent to Mr. A by the finance company and the balance is \$1,969.98. Since the finance company said Mr. A still owes them \$2,452.62 (this was after he had had the fight with them and gotten them to deduct the \$300 insurance add-on) we can only conclude that the charge for carrying the balance he owed would be \$482.62 (\$2,452.62 minus \$1,

969.98). That is 27.6 percent per annum simple interest. I asked Mr. A if he would have purchased the automobile and financed it with the ——— Finance Co. had he known it would end up costing him 27.6 percent simple interest, and he said "No."

This is the predicament in which this honest, hardworking employee of the U. S. Government finds himself as a result of his failure to understand the true cost of financing a new automobile, even with a well-known, reputable finance company.

**Donald J. McKinnon, Michigan credit union leader, told the committee many employees in the consumer credit trade would welcome a chance to be honest with their customers.**

**Mr. MacKinnon.** My name is Donald J. MacKinnon. I am treasurer and general manager of the Ford Dearborn Federal Credit Union, which is located in Dearborn, Mich., and which serves administrative, research, styling, and engineering personnel of the Ford Motor Co. The credit union has no connection with the company itself. I have held this position since October, 1952. Prior to that time I was employed in credit granting and collection positions with the City Finance Co., Sears, Roebuck & Co., and the Detroit Association of Credit Men. I also was employed for 2 years as a field representative of the Michigan Credit Union League, engaged in the organization of credit unions and assisting them with their credit and collection problems. I am also a director of the Service Savings & Loan Association in Detroit.

Therefore, for over 15 years, I have been actively affiliated with a variety of credit organizations and this experience has provided me with a liberal education in the practices, procedures, and trade terminology of the majority of types of credit available to the American consumer. This experience has also convinced me that it is the terminology of the trade, which, while meaning one thing to the lending profession, conveys an entirely different meaning to the consuming public.

I should like to emphasize my belief that the objective of S. 2755 is not only a most worthy and necessary one, but one that all reputable firms and personnel engaged in the business of granting credit can find good reason to support wholeheartedly. I simply do not agree with those who believe that a large proportion of the people who charge rates of interest in excess of our own, are guilty of usurious practices, or in any way deliberately attempting to defraud the public. It is my experience that the vast majority of those in the personal credit business are honest and upright citizens. Of course, there are the fringe operators who bring disrepute to any business, but they operate largely outside or without benefit of legal control and are in no way representative of the great majority of ethical firms doing business in this country.

I should like to repeat and explain my statement that the real problem is found in the terminology of the trade and to express my belief that in many cases, the credit merchant is the victim of an uncontrolled situation, not the cause.

**Senator Douglas.** In other words, we are seeking to



liberate the credit merchants.

**Mr. MacKinnon.** Yes, sir.

**Senator Douglas.** Why don't the credit merchants welcome this liberation?

**Mr. MacKinnon.** I am thinking of the thousands and thousands of people who work for these people who are the people who must talk to the public and use this trade terminology, who would like to be able to tell the truth, I think, for a change.

We can surely agree that those who sell credit are entitled to a fair and reasonable profit, just like the seller of service or any other commodity. But there is a wide divergence of opinion as to what constitutes fair and reasonable prices and profits in this case. On the one hand, the consuming public has come to set standards in this respect which are totally unrealistic, while on the other hand, the business community has tried to accommodate itself to this "just price" concept by the various methods of quoting costs of personal credit. For example, the consumer, perhaps as a result of his grammar school instruction in arithmetic, has set a standard of 6 percent per annum as a reasonable charge for the use of money. Even though this rate is totally unrealistic and would, in effect, wipe out most lenders if they had to restrict their charges to it, the consumer has been led to believe that such terms as "6 percent discount," "6 percent on the principal balance," or "\$6 per \$100," all are equal to a true 6 percent rate—his mental standard of fairness—when actually they are double that rate.

Even credit unions are affected by this misleading terminology, for we have even been accused of usurious practices when we tell a member that we charge 12 percent per annum and he compares this rate with the misleading rate terms I have mentioned.

I would first of all like to discuss experiences relating to banks, not to single them out for particular attention, but only because, in my opinion, they deserve and require a special measure of public trust. As conscientiously as they may try to serve the public interest, they, too, are often caught in this web of trade terminology.

(1) A highly placed banking supervisory official assured me that a certain group who proposed to organize a credit union could borrow from nearby banks at "5 percent." My exception to the use of his terminology brought an assurance that he meant \$5 per \$100, not 5 percent per annum simple interest.

(2) A bank in my community advertised regularly that it made car loans at 4 percent per annum. Investigation disclosed that the rate was actually \$4 per \$100, with a true simple annual interest rate of 8 percent—double that quoted. I was able to prevail on the bank to revise its advertising by substituting the dollar sign for the percent sign, even though I am sure that it actually meant little difference to the reader. My suggestion was that the bank had placed me, a credit union manager, in the uncomfortable position of having to advise some of their customers that the bank did not tell the truth and thus was damaging its own reputation.

(3) A note form used by a large bank in my home area states that interest shall be charged "at the rate of 6½ percent per annum on the entire amount." Again, I pointed out to officials of the bank that this conflicted with their advertised rate of 1 percent per month on the unpaid balance, and that while such terminology indicated equal costs to them, in the minds of the consumer the effective

rate would seem to be only 6 percent per annum simple interest, or half the actual rate.

**Senator Douglas.** These all illustrate thus far the interest rate being quoted on the original amount of the loan rather than on the unpaid balance.

**Mr. MacKinnon.** That is correct, sir.

(4) A young man, with whom I am well acquainted, wished to add a room onto his house to accommodate his growing family. He possesses an unusually fine education in finance and was fully aware of the many trade terms used. But a large lending organization in my community convinced him that he could secure an FHA home improvement loan for 5 percent simple interest per annum. However, when he received his payment book a few days later, and did a little figuring, he realized that he had been misled.

Perhaps in the field of education, we could surely expect to find an appreciation of the true meaning of credit terms. And yet there is plenty of evidence to indicate that even educators have been deceived by trade terminology.

(5) A few months ago, after a lecture to a group of high school students, which included a discussion of comparative credit rates, the teacher told the class and myself that she had always thought that \$6 per \$100 meant 6 percent simple interest and was surprised to learn that it is common for our respected credit institutions to charge substantially higher rates.

(6) A high school mathematics teacher, in one of our most progressive educational systems serving a large metropolitan city, wrote an article for a teacher publication, vigorously denying that 1 percent per month equaled more than 6 percent per annum simple interest.

**Senator Douglas.** He is a mathematics teacher?

**Mr. MacKinnon.** Yes, sir.

**Senator Douglas.** He should have been here a couple of days ago when the Chairman of the Federal Reserve Board confessed he couldn't understand the automobile charges which he and his friends pay.

**Mr. MacKinnon.** He has a lot of company.

An independent banker from South Dakota told the committee he thinks interest should be expressed in simple annual rates, as the Douglas Bill provides. Herbert E. Cheever of the First National Bank of Brookings, S.D., said his bank is able to cover all costs and make a profit with an 8 percent annual rate. He also expressed disapproval of the kick-back system in auto financing.

**Mr. Cheever.** I have been associated with the First National Bank in Brookings, S. Dak., for a period of 22 years, and for many years I have been in charge of the real estate and installment loan division of the bank.

The city of Brookings is quite a typical Midwest city of about 10,000 population. It is located in Brookings County, which is an agricultural area. There are seven banks within the county, and in the city itself there are two banks and three finance companies. Total deposits in the First

National Bank are a little over \$10,500,000,000, which represents something over 50 percent of the deposit volume in the county.

**Senator Douglas.** So you are, by all odds, the leading financial institution in the county?

**Mr. Cheever.** I think we are the largest, sir, by several times.

The First National Bank is a completely independent bank. One thing about it, that is perhaps not typical of most banking institutions, is the fact that the only interest charge in the entire bank operation is based on simple interest and that the maximum charge and the predominant rate in the installment loan division is 8 percent simple interest.

**Senator Douglas.** That is an annual rate?

**Mr. Cheever.** It is an 8 percent annual rate figured on the unpaid balance.

**Senator Douglas.** Unpaid balance?

**Mr. Cheever.** Unpaid balances, sir. That is the way the note reads, on the unpaid balance.

**Senator Douglas.** I want to congratulate you. I am going to ask the counsel to prepare a letter for the chairman of the board of directors of the bank, congratulating them on their policy and congratulating you on your public spirit in coming here to testify.

**Mr. Cheever.** Thank you, sir.

**Senator Proxmire.** Mr. Chairman, I would like to ask one question of the witness at this point.

We had some testimony recently on the requirement to relate the finance charges, as specified in the bill, to the loan. It would mean that the resultant computation would not be a reflection of simple interest, but would be a reflection of a lot of other things, including the imputed cost of the money itself, the cost of salaries paid to people who have to work in the institution making the loan, and the cost of rent and light and heat and so forth.

You are using the term "simple interest" here, and I presume, of course, that this is to cover all of your cost.

**Mr. Cheever.** That covers the complete charge. There is no other charge. We have an insurance department in the bank. If the client so wishes, he can get his insurance there, or he can go wherever he wants to. If he does buy insurance at the bank, the insurance charge is listed as a part of his cost of his loan.

He might be asking for \$1,000. His insurance might have been \$75. Then, we would compute our interest on \$1,075.

**Senator Proxmire.** But there is no service charge for credit investigation?

**Mr. Cheever.** There is no service charge.

**Senator Proxmire.** Or overhead or anything else?

**Mr. Cheever.** None, that is right.

**Senator Proxmire.** It is simple interest?

**Mr. Cheever.** It is strictly simple interest, as the arithmetic books taught you several years ago . . .

I would like to amplify what I have to say here just a little bit. There is one other situation that is disturbing to me that really involves banks, and that is that there are quite a number of dealers and merchants that do sell all their paper to banks. These people will frequently advertise, using billboards or any other medium, and they will say, "Bank rates used here."

There, the buyer is probably completely lulled into security by thinking that by dealing with a particular place that he is getting a low rate when the truth is that very

many, many, many times, he is not. The paper is sold to the bank, and I will cover a little more of that as we go on.

The use of money has a certain basic value. Any loaning institution must add to that a charge for the risk involved, plus an additional charge for the work element that may be required to handle that type of transaction. I do not say that some of these transactions should not have a high rate of interest. But I do say, and firmly believe, that the borrower has a right to know what he is actually having to pay and in the terms of simple interest. If the buyer has that awareness, then it can only be up to him as to whether or not he wants to complete the transaction. To me, one of the main objectives of government is the protection of its citizens. If there are large numbers of our people who are unable to comprehend or understand the confusing and misleading interest terminologies that are commonly used, and, if we can correct this situation by the enactment of a measure such as this, then I think we owe that obligation to our citizenry.

Millions of people in our Nation find that it is necessary or expedient to use consumer credit, and this credit is a very integral part of our economy. When excessive charges are made, it has a very definite effect on both the people that are paying those charges and on our economy in general. In analyzing the consumer credit problem, we should give some thought as to why certain abuses exist. In the first place, the financing of consumer credit is, of course, a very competitive field. Normally competition in itself will regulate the price. Unfortunately, that has not been the case with consumer credit. The great bulk of consumer credit originates with the merchant or dealer. They are the ones that control where this finance paper is going to be sold. The competition that has developed is as to which financial institution can do the most for the dealer. What I am talking about is the kickback from the financial institution to the originator of the credit. This in itself is costing the people of our country untold millions of dollars and is all being added in as a part of the cost of consumer credit to the purchaser. I am sure that I am safe in saying that with many originators of credit the fees they are receiving for these kickbacks will be a very substantial part of their net earnings.

Again, we should step back a few years in the history of consumer credit. As the plan was growing and developing, dealers and merchants were selling paper to financial institutions, and the originator of the credit was required to guarantee the payment of the obligation of the purchaser. Good business practice was to set up a reserve fund out of which losses would be paid. This is still done and is legitimate to a degree; that degree should be a reserve in an amount that would protect the dealer from losses that he might sustain on the paper sold. As consumer credit continued to develop, most financial institutions found that in general their experience was very satisfactory. Consequently, the provisions of the guaranty were limited.

In other words, they would reduce the liability of the dealer that sold the paper. He might not have to do any more than just pick up the car, if that was it, the transaction, and deliver it to the financial institution. He did not have to guarantee the payments, and if it defaulted pay out. They kept limiting the terms of the guarantee of the dealer. As the reserve fund became larger than was necessary for the dealer's protection, the overages were returned to the dealer.

In my judgment this situation is getting completely out of control. Only a small part of the amounts credited to a dealer are a legitimate reserve. The balance of it represents how much the dealer can get for selling the paper. The situation has deteriorated so far that today if a dealer merely sends a customer to a financial institution and they make a direct loan—that would be one where there is no dealer liability whatsoever; just sending a customer to the financial institution—that dealer is given a substantial check for sending someone a customer.

**Senator Proxmire.** Mr. Chairman, at this point, I would just like to interject that this is an extremely interesting and very, very important and significant charge, I think. I wonder if you are saying this: I want to make sure I understand this sentence. You say, "The situation has deteriorated so far that today if a dealer merely sends a customer to a financial institution and they make a direct loan, that dealer is given a substantial check for sending someone a customer."

It seems to me to be a kind of kickback procedure, and it appears, the way you stated it here, this is the rule, not the rare exception by just a few chiselers. That this is the common practice throughout the industry. Is that correct?

**Mr. Cheever.** I cannot speak for the industry, Senator. I can only speak for a limited area.

**Senator Proxmire.** Your own experience.

**Mr. Cheever.** But one transaction which I can give you that I know of was where a man bought a new car, and there was a \$1,200 difference to finance. The dealer sent the individual to a financial institution where they made him a loan of \$1,200. The rate was this so-called 6 percent straight interest. So he would have 3 years times 6, which would be 18 times the amount borrowed, plus two other little charges, not much, which brought the interest finance charge up to \$220.

The dealer did not go to the institution. He did not sign his name to anything. He received a check for \$44 for sending that customer.

**Senator Proxmire.** In your experience, this is not an exception?

**Mr. Cheever.** I do not think so, sir.

**Senator Proxmire.** This is the common rule, the practice?

**Mr. Cheever.** As far as I know, although we do not do that sort of thing in our own institution.

**Senator Proxmire.** Your experience would indicate, as a vice president of the dominant bank in your area, this is a common practice?

**Mr. Cheever.** I think it is a practice throughout the area.

**Senator Douglas.** In the diskjockey field, this is called payola. Do you think this term would be improperly applied to this practice?

**Mr. Cheever.** Maybe we should get it a little more modest for the bankers, maybe call it spondulics or something else. We used to talk of spondulics when we were kids, but it is an inducement to get business, certainly. I do not know that it can quite fit into the payola term. But it is a payoff. It is a fee that is paid for business.

**Senator Douglas.** Fee splitting sometimes takes place among doctors. It is of a somewhat similar nature, is it not? A general practitioner will send a patient to a surgeon and get a certain fraction of the surgeon's fee. Is that not of a somewhat similar nature?

**Mr. Cheever.** I think institutions are definitely willing

to pay for business, regardless of whether or not there is direct liability on the part of the seller of the goods.

**Senator Douglas.** Have you lost any business because of your refusal to kick back?

**Mr. Cheever.** I will put it this way. We do not get any business from it. We do not get any business from the dealers. Every dealer in our city has a bank account with us, but they, of course, will not sell us automobile paper because of the fact that it can be sold elsewhere and they—

**Senator Douglas.** When they sell it elsewhere, they get the kickback?

**Mr. Cheever.** They get a kickback, yes.

**Bank advertising that offers consumer loans at a 5 percent interest rate is untruthful, agreed a witness representing the American Bankers Association. Carl Bimson, Arizona banker, has apparently embarrassed his colleagues by this admission, which was not in his prepared statement; no financial reporter mentioned it in the next day's papers.**

**Mr. Bimson.** My name is Carl A. Bimson. I am president of the Valley National Bank of Phoenix, Arizona; vice president of the American Bankers Association and a former chairman of the instalment credit commission of the American Bankers Association.

Your chairman opened the hearings on this bill with the statement that the purpose of the measure is to "require that the American consumer be given the whole truth about the interest rates and finance charges he is asked to pay when he borrows money or buys an article of merchandise on the instalment plan." We feel that we can be helpful to your Committee by expressing our opinions and views on the effect of the proposed legislation on instalment credit.

We heartily endorse the objective of S. 2755, to require the disclosure of finance charges in connection with extensions of credit. In fact, the Association has worked toward this end for many years. Some years ago the instalment credit commission of the Association cooperated with the National Better Business Bureau, Inc., in an endeavor to encourage the full disclosure of finance and loan charges.

In the late '30s, banks expanded rapidly in the field of instalment credit. As a result, the American Bankers Association formed a consumer credit department in April of 1940. At the first annual national meeting in April of 1941, the consumer credit council of the American Bankers Association promulgated a creed or a statement of principles to assist the banks of the nation in establishing their policies on instalment credit. This creed has received wide acceptance and might well be regarded as the magna charta of all bank instalment-credit activities. In light of changing conditions and the expanded activities of banks in this field, the creed has been broadened. However, the fundamental principles originally stated are unchanged.

The instalment credit creed which was promulgated 19 years ago and recently brought up to date follows:

"We believe, that in order to justify its charter, a bank should serve the reasonable credit requirements of its



community as well as provide a safe depository for funds;

"That the extension of instalment credit to individuals and small business on a sound basis is an economically important part of such service;

"That by the extension of instalment credit: banks facilitate the distribution of goods, help people meet emergencies, take advantage of opportunities, and improve their standard of living;

"That although a bank must be competitive, it should maintain its policies and practices on a basis that will insure continued public confidence;

"That a bank has a responsibility to assist its customers to use their credit wisely;

"That while recognizing the importance of volume, banks should keep all advertising truthful, restrained, and exact;

"That a bank in purchasing instalment paper from dealers should maintain reasonable rates to the public and the same fair policies accorded to all other customers;

*"That banks should require that each customer be fully informed of all charges in connection with an instalment credit transaction;*

"And, finally, that all banks extending instalment credit on these principles will merit the good will and the support of the people."

**Senator Proxmire.** I would like to ask Mr. Bimson this. On page 3 of your testimony, Mr. Bimson, you say, and I quote: "While recognizing the importance of volume, banks should keep all advertising truthful, restrained and exact."

**Mr. Bimson.** That is correct.

**Senator Proxmire.** Senator Bush, I think, has a copy of an ad that he is holding in his hand. Do you mind passing it on to me? This is an ad of an—I will not disclose the bank, of course. It has been the policy of the committee not to, and I think it is a wise and desirable policy, but it is a bank—

**Senator Bush.** A national bank.

**Senator Proxmire.** A national bank; that is correct.

They start off with a heading: "May we bid for the privilege of financing your car."

And then in the second paragraph, "We offer to finance your new car at a cost to you of 4 percent interest."

I am wondering if this kind of an ad is in your judgment truthful and exact.

**Mr. Bimson.** I would say that that statement is untruthful, probably. I have every reason to believe it is untruthful. The Better Business Bureau in that community should call the matter to the attention of the bank and to the attention of the state bank supervisor in that area. That practice went out a good many years ago when General Motors was called to account for advertising 5 percent or 6 percent rather than a discount rate. There may be isolated cases of this sort, but it is untruthful advertising, and we certainly do not believe in it. We abhor the fact that you are able to come here with that kind of a statement. I do not care who the bank is. I would tell them that to their face.

**Senator Proxmire.** Here are some examples up here of ads on automobile financing. The committee has been inundated with this kind of example. It is not exceptional, as we wish it were. It seems to be, if not the rule, at least quite common and frequent. You can see this kind of advertising that you yourself have just described very properly and eloquently as untruthful.

What would be the prime rate under these circumstances? What is the prime rate in the money market?

**Mr. Bimson.** Well, generally new car financing is—

**Senator Proxmire.** I am sorry. I just want to make the question clear. What is the prime rate today?

**Mr. Bimson.** Five percent.

**Senator Proxmire.** That makes it pretty obvious that this is, to anyone who understands what the prime rate is, and that is information that only financial experts as a rule have, untruthful. As you have implied, the general public has no idea. It looks like a wonderful deal.

**Mr. Bimson.** The only basis on which they would know is a practical application of this, having purchased on time or recognizing the \$5 per hundred add-on. I personally think it is very poor advertising that should not be carried on. We ourselves when we stipulate a rate will say \$6 per hundred per year or \$5 per hundred per year on the principal balance, rather than going to your 5 or 6 percent rate.

I would think that we could, and perhaps should, very definitely, now that it has been called to our attention, canvas our advisory board members of the instalment credit commission and call attention to the fact that this is going on in certain states and attempt to do a policing action ourselves to correct it, because obviously not all of us come in contact with things of this sort. It may pop up in one part of the country or the other. But I would think that that should be done, and as the vice president of the American Bankers Association I shall so instruct the chairman of our instalment credit commission that a bulletin go out to all the advisory board members and the banks in each state be canvassed and call to their attention that we think in our opinion this is inadequate and improper disclosure of the rate being actually charged.

## CUNA MEETING

(Continued from page 5)

25 years of credit union experience, he has never found a borrower in his credit union who understood anything about installment interest rates.

"With all that we have done in the credit union movement to help borrowers, we have never really succeeded in educating them to an understanding of interest rates. We could not. It was an impossible job. Rates are stated in so many confusing ways that the only loan on which the average man knows what rate he is paying for is perhaps his home loan. It will be a revolution in the field of consumer credit if all lenders state their rates in the same way—if the banks admit that 6 per cent discount is 12 per cent true interest, if we tell our members that 1 per cent per month is 12 per cent per annum, if the retailers and sales finance companies and small loan companies clearly state their interest rates running from 12 to 18 per cent and up to 42 per cent. It will be a revolution, and the signs seem to indicate that it will happen. One result, it seems likely, will be that there will be a considerable improvement in the sophistication of the general public. There will be much more intelligent shopping for credit.

"What the other results will be, it is not easy to guess. One witness before the Banking subcommittee was a professor of economics from Kansas, who said he believed that there would be a substantial shift of borrowing



away from retailers and toward banks and credit unions. He said the main reason for this is that it is simply more expensive for retailers to extend credit than it is for financial institutions, hence retailers can never match banks or credit union rates. If his guess is right, we ought to prepare ourselves in the credit union movement for an avalanche of business. The demand for loans will simply swamp us. We have heard it predicted before that credit unions are going to be short of loan capital in five or ten years, but I submit that if the Douglas Bill is passed and has the predicted effects, the squeeze is going to come much sooner and harder than anybody dreamed a year ago.

"Other developments in the field of consumer credit have been discussed at our previous meetings. We have

talked about credit cards, revolving credit, charge plans, in-plant banking and all the other new services and gimmicks that are being developed in the business world. Senator Douglas offered a new definition of money the other day which I think will please you—he said money is the poor man's credit card.

"I think we should take note today that more of our Leagues are reporting the growth of in-plant banking in their areas, and that the Bank of America has announced that it now has in-plant banking arrangements in 3,000 establishments. It is still possibly too early to evaluate these developments, but of course it is obvious now, as it has been for a year or two, that the environment in which we serve our credit union members is changing fast and that our members are confronted with many new

pressures and temptations. The credit union movement, itself, is being attacked more frequently by those who consider us as competition. We have to expect that because we are unusual in this field, some people may even consider us unfair. We have to be prepared for the fact that there will be continuous efforts to drive a wedge between us and industrial management, and in some cases this is going to be successful. As a defense against this, we have to be prepared to operate our industrial credit unions independently of the support and encouragement of industrial management in some cases, and we have to consider, in our organizational programs, the desirability of striking some sort of balance between industrial groups on the one hand, church groups, residential groups and so on on the other hand."

## VOLUNTEERS

(Continued from page 3)

amounts to an invitation to get involved in a hassle. If this is well known, many will avoid serving. Such splits should not be permitted to last.

Does **one member** of the board dominate the credit union, so that everybody else is just a rubber stamp? This is sometimes a difficult problem to handle, because often the dominating officer is competent, likeable and hard-working. Other members become lazy and let him carry the load, defer to his judgment, and eventually stop asking any questions. This leads to a situation where nobody really knows what's going on in the credit union except the dominant officer. Candidates for office may be reassured: "Don't worry, there's nothing much to do!" It goes without saying that this is dangerous; it also tends to lower the average interest and ability of the board and committee members. Prospective officers with ability and strong personality do not want to step into a rubber stamp position.

Do board and committee members **enjoy their meetings**? Is the atmosphere pleasant? Are the surroundings comfortable? Is the meeting regarded as a chore to be gotten through, which everybody resents, or is it an enjoyable event? Does the president or chairman give everybody a fair chance? Does he keep things moving?

Is there a sense of accomplishment at the end of the meeting? Are the people themselves the kind it's a pleasure to work with?

Is the **time schedule** of meetings and other duties well worked out? Are meetings arranged to the mutual convenience of all, or are they set primarily for one officer? Luncheon meetings, dinner meetings, breakfast meetings and right-after-work meetings can help solve problems of timing. Is the agenda sent out in advance so that discussion can be to the point? Is the chairman adept at keeping the discussion on the track? Meetings should begin promptly and end at a reasonable hour. Information officers may ask for should be prepared in advance.

Are the **family responsibilities** of the officers respected? Are the wives of the officers honored at the annual meeting or in some other way? Is an effort made to let the wives know what sort of service their husbands are giving? Is credit union literature sent to their homes?

If the credit union has **paid employees**, do they understand their relationship to the volunteer officers? They should avoid trying to dominate the board and committees, and they should help make meetings more successful.

If the credit union is an employee group, is the relationship with the employer good? Are efforts made to keep him aware of the credit union's service to employees? If company

time and payroll deductions are available to the credit union, the use made of them should be reasonable. Is it an achievement in the boss's eyes to be elected to a credit union position?

If serving on the board or committee means a financial problem for the volunteer, does the credit union make efforts to provide him with services he needs in an officers' or central credit union? If there is no loan service for officers available, should efforts be made to establish a central credit union or good bank connections?

The morale of volunteers depends on many things, and every credit union board should consider these things seriously, one by one. From the point of view of the credit union itself, there are other questions to be asked about prospective officers, of course. But the morale question should come high on any list.

## BAPTIST MINISTERS

(Continued from page 11)

to meet their credit union obligations as they fell due. We have often permitted members to make interest payments only, postponing principal payments until they could recover from temporary emergencies. There have been several cases in which we found that a slow-paying member needed more money. In some of these instances we have helped the members by extending their repayment period, lending additional money, or both."

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## COMING EVENTS

June 3-5—New York State Credit Union League annual meeting, Laurels Country Club, Sackett Lake, Monticello.

June 8-10—Nova Scotia Credit Union League annual meeting, Cornwallis Inn, Kentville.

June 10-11—Washington Credit Union League annual meeting, Monticello Hotel, Longview.

June 23-25—British Columbia Credit Union League annual meeting, Courtenay.

June 24-25—Montana Credit Union League annual meeting, Florence Hotel, Missoula.

September 9-10—Wisconsin Credit Union League annual meeting, Loraine Hotel, Madison.

September 15-17—Florida Credit Union

League annual meeting, Deauville Hotel, Miami Beach.

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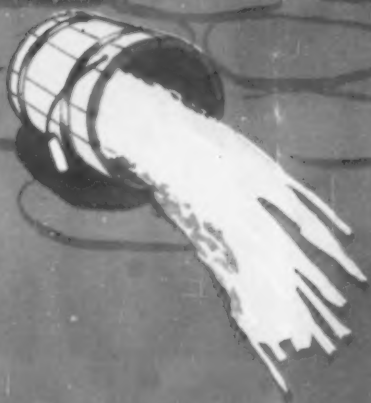
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